McGill International Portfolio Challenge

2020 Edition

The British National Strategic Fund:

UK Introduces a New Sovereign Wealth Fund to Promote Economic Equality and Independence

Disclosure

The case for the 2020 edition of the McGill International Portfolio Challenge was written by the students of FINE 435/690 – Pension Investing (Winter 2020), under the direction of Professor Sebastien Betermier at McGill University's Desautels Faculty of Management. Authors of the case include Jesse Wu (lead), Frédéric Aubé, Lucile Caron, Alexis Fonseca, Lina Greiche, Taylor Hu, Param Jhangra, Paramesh Krishnamoorthy, Natalia Krstic, Qiyang Liu, Louka Nadeau, Yingjie Shen, Jinhui Wang, Mandy Wang, and Cindy Zhang.

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Case Overview

Preface

This year's edition of the McGill International Portfolio Challenge centers on the British National Strategic Fund (BNSF), a fictional sovereign wealth fund (SWF) responsible for managing £50 billion of assets of the United Kingdom (UK).[1] As part of its exit from the European Union (EU) or "Brexit" in January 2020, the UK is currently in a transition period ending on December 31, 2020 to negotiate a trade deal with the EU.[2] To address potential economic shortcomings and decreased levels of foreign direct investments, the government has approved the creation of the country's first SWF.

The purpose of this case is to devise an optimal investment strategy and asset allocation framework to best serve the UK's economic interests following withdrawal from the EU. While BNSF is fictional, real data from the UK is used to frame the discussion surrounding current socio-economic and political conditions. To separate fact from fiction in this case, sources and notes are all provided in the final section highlighting fictional and factual components. Monetary amounts in this case are denominated in Pound Sterling (£).

The British Economy

The UK has a population of 66 million and its £2.2 trillion GDP ranks sixth in the world.[3] The nation's capital, London, is one of the world's three key financial centres, alongside New York and Tokyo.[4] The latter half of the 20th century saw a gradual decline in manufacturing as the country transitioned to a services-oriented economy.[5] Service sectors now employ 81% of the British workforce and represent 80% of the UK's GDP.[6] Loss of manufacturing and offshoring contributed to structural unemployment and magnified income inequality. Finally, the COVID-19 pandemic has highlighted what critics describe as a lack of critical domestic infrastructure and over-reliance on external supply chains.

Rise of Social Inequalities and Brexit

The UK is currently among the ten OECD countries with the highest Gini ratios, which measure the countries' income gap.[7] In spite of multiple root causes, many have come to hold trends of globalization responsible. These polarizing socio-economic beliefs led to an increased appetite for protectionism, ultimately paving the way to the Brexit referendum.

Brexit was decided in June 2016 by a 52% vote.[8] Britain's least wealthy citizens spoke when nearly 60% of those in the poorest regions of northeastern England voted to leave the EU.[9] After years of drafting a withdrawal agreement, the UK left the EU on January 31, 2020 and began the 11-month transition period to discuss both parties' future relationship.

The COVID-19 Pandemic in the UK

While the economic repercussions of COVID-19 may take years to accurately measure, the pandemic has already provided important lessons for the UK. First, public spending can only be flexible with a robust government balance sheet and well-planned contingencies to weather future crises. Second, the UK may have over-relied on supply chains on certain regions such as Asia.

Taking healthcare as an example, the UK has had difficulty sourcing health equipment to contain the spread of the virus.[10] Ventilators and masks are manufactured abroad, while local suppliers are running out in times of crisis. The same applies to many other medical supplies that depend on fragile, foreign supply chains.[11] As the UK leaves the EU and loses the ease of procurement, the future of British industries remains uncertain without its once strong ties to the continent.

Introduction to BNSF

While the idea of a British SWF is not new, the catalysts previously mentioned warrant its establishment. The official inception of BNSF will be on January 1, 2021, and the fund will be responsible for investing a total of £50 billion of assets to be raised over a 5-year period. The first injection of £20 billion will be available by the end of first quarter in 2021. BNSF has a triple mandate to both the government and the citizens of the UK:

1) Promote economic independence, by investing to support economic stability, growth and self-sufficiency within the UK;
2) Promote the long-term well-being of the British population, by addressing socio-economic issues such as income inequality and unemployment through investments;
3) Maximize risk-adjusted returns to ensure the fund's long-term sustainability.

One of BNSF's obligations is to generate returns above the target set by the UK government. The annual target corresponds to the 30-year Gilts (the UK government bond) yield plus a 2% premium, net of fees. If BNSF consistently misses this target, it will eventually lose profitability and the government's support in additional financing rounds.

BNSF is established as a crown corporation with its headquarters in London. Thus, the fund is owned and regulated by the UK government, but it is more independent than an arm of the Treasury. BNSF can issue its own debt financing and invest with minimal government monitoring. The fund's debt issuances will be financially backed by the Treasury. BNSF bonds are to be issued with almost identical maturity and yield characteristics as those prevailing on the 30-year Gilts at the time of issuance, providing an attractive low-cost financing option.

Finally, BNSF will raise the requisite £50 billion through three separate bond issuances of £20 billion, £20 billion and £10 billion in the first quarter of 2021, 2023, and 2025 respectively. Should the issuance not be fully absorbed by institutional investors and the rest of the market, the remainder will be purchased by the Bank of England through quantitative easing measures. Thus, BNSF financing sources are deemed highly secure and nearly risk-free.

Objective of the Case

BNSF has a mandate to promote British economic independence and the long-term well-being of the British population. However, fund managers are concerned that a lack of geographical diversification and focus on supporting low-income business segments may negatively impact investment returns in the long run. Given the unprecedented nature of the task before them, the BNSF board decided to hire your investment consulting firm to advise them on the following: How should BNSF design its investment strategy and asset allocation framework to support the UK's long-term economic development objectives? You are expected to present a long-term asset allocation strategy for the first £20 billion issuance in the first quarter of 2021, while fulfilling BNSF's triple mandate.

The following sections provide information that illustrates the complexity of this task. BNSF is actively monitoring the UK's economic change surrounding Brexit, as well as the growing trend of non-commodity SWFs around the world. The fund mandate is further complicated by existing trade-offs and uncertainties around the UK industries. Finally, the seven BNSF board members all have varying perspectives on BNSF's triple mandate. These members will jointly evaluate and vote on your proposal at the upcoming meeting in November 2020.

Possible Economic Impacts of Brexit

As a former member of the European Union, the UK benefited from the free movement of capital, goods and services, and labor within the EU. The extent to which the UK will be able to retain access to these "four freedoms" will depend on the outcome of the UK government's Brexit negotiations with the EU.

Capital: No More Passporting

EU's free movement of capital is built on financial "passports" for banks and financial service companies within the European Economic Area (EEA).[12] With these passports, firms can register in one EEA state and conduct business across the EEA without much authorization from other member states. This regulation contributed to the rise of London, as many foreign banks set up London subsidiaries to sell their services across the EEA.

If the UK withdraws from the EEA, its financial companies will lose their passports. Instead, the UK could obtain regulatory "equivalence", which is a diluted version of passporting where firms can offer services in the single market only if their home state's financial regulations are deemed "equivalent" to the EU's.[13] Nevertheless, equivalence covers fewer industries and types of financial services, and the applicant nation may have to amend its laws to reflect EU rules. Moreover, the status of equivalence is determined at the EU's own discretion and can be withdrawn at any time.

Currently in the UK, 5,500 financial firms rely on passporting[14], and the potential loss of these rights has led to the planned relocation of 7,000 financial jobs and £1 trillion in assets out of the UK.[15] More than 330 financial companies have moved or plan to move their London offices to neighboring EEA cities, such as Dublin, Paris, and Luxembourg.[16]

Goods & Services: Post-Brexit Trade Barriers

The EU Customs Union promotes the free movement of goods and services or in other words, free trade. In the UK, the service sector has historically driven the growth of UK exports, 51.4% of which go to Europe.[17] One study estimates that exiting the EU Customs Union would lead to a 61% projected reduction in the UK-EU services trade and 25% in UK services trade with all countries.[18] This reduction would mostly affect the UK's economic center, Southern England. Depending on the outcome of deal negotiations, the region could suffer a 4% to 8% loss in value-added growth by 2033.[19]

The drastic trade decrease comes from post-Brexit barriers between the UK and the EU. The most apparent barrier includes tariffs, which could create a potential loss of £9 to £13 billion.[20] Additionally, even if a free trade agreement is signed, UK exports to the EU could still drop by 9% due to non-tariff measures, such as country of origin checks and new certificates.[21] Combining the effects of tariffs and non-tariff measures in a no-deal Brexit, the country risks losing 14% of its EU exports.[22]

In the manufacturing industry, which makes up 10% of the UK's economy, carmakers are shutting down plants.[23] They fear the unpredictable production delays and licensing costs after the transitional period. This uncertainty will most adversely impact North East and West Midlands which heavily rely on manufacturing.[24] Meanwhile, staple industries like food and drink manufacturing would face high import tariffs[25], and the same would befall hotels and restaurants across the country who rely on imports of EU supplies.[26]

As for trade deals, the UK must replace the 40 free trade agreements with more than 70 countries it enjoyed as an EU member.[27] In addition, if the UK leaves the EU without a deal, the two would be trading on WTO terms with significantly higher tariffs and the "most favored nation" clause.[28] The clause implies that the UK must lower the tariffs for every WTO member if it does so for the EU.

Labor: Loss of EU Labor

Among the four freedoms of the single market, the free movement of labour has displeased Brexiteers the most. Currently, 2.31 million EU nationals work in the UK and form 7% of the country's labor market.[29] One study estimates that, under the proposed set of tougher immigration criteria after Brexit, 70% of resident EEA citizens arriving in the UK since 2004 would be found ineligible to obtain a visa.[30] Consequently, it would be difficult to persuade new EU workers to immigrate to the UK.

Yet, the UK needs EU's labor supply. The agriculture sector could lose up to 70,000 seasonal workers under new regulations.[31] EU workers are needed as drivers and pilots in the transport and logistics industry, and UK firms have always needed EU's specialized labor, such as automotive engineers or project consultants, on a short-term basis.[32] The number of these qualified workers will decrease significantly when the UK leaves the EU.

The food and drink manufacturing industry has the most to lose from the loss of EU labor. It is the UK's largest manufacturing sector and employs more than a quarter of its workers from EU states.[33] Likewise, UK restaurants and hotels could lose up to a quarter of workers, in addition to declining EU customers reluctant to visit the UK because of the stricter immigration.[34]

Possible Consequences of Brexit[35]

When the UK exits the EU in December 2020, it can still choose to remain in EU-related institutions through negotiations, including the EEA and the EU Customs Union. The impact of Brexit will therefore depend on the institutions that the UK chooses to leave behind. For instance, if the UK decides to leave the EEA, it will lose its passporting rights and possibly endure an exodus of capital and financial firms. Similarly, by leaving the customs union, the UK will lose free trade privileges with member countries, unless trade deals are ratified with the EU and other non-EU members. The different versions of Brexit have been classified into “hard”, “soft”, and “no-deal” Brexit.

A “soft” Brexit is the most ambiguous. The UK will cease being an EU member, but it can remain in some of EU's institutions as a non-member state. Through new agreements, the country can avoid losing financial passports by staying in the EEA. It can also maintain favorable trade terms with the EU by continuing its membership in the Customs Union. Nevertheless, it will still have to negotiate new trade deals outside the EU and lose some amount of EU labour.

A “hard” Brexit indicates that the UK withdraws from the EU and all its institutions. The country's economy will face all three consequences mentioned above: the loss of financial passports, the erection of trade barriers, and the decrease of EU labor. Then again, the UK can still sign individual agreements and trade deals to mitigate these effects.

A “no-deal” Brexit is the most abrupt version of hard Brexit. In this version, deal negotiations between the UK and the EU fail and the UK exits the EU without any deal. The two would trade under WTO regulations, while the UK absorbs the impact of hard Brexit. The Bank of England predicts that the nation's GDP would fall by 5.5% in this scenario.[36]

The uncertainty lies in that nobody, not even the deal negotiators from the UK or the EU, knows the exact arrangement of Brexit until the end of the transition period. Thus, fund managers must prepare themselves for any one of these outcomes. During this unsettling period, the fund has looked to existing SWFs in other countries for possible guidance.

The Boom of Non-Commodity SWFs

A New Wave of Sovereign Wealth Funds

An SWF is a state-owned investment fund or entity.[37] It is commonly established from revenue from resource extraction and exports.[38] There are many well-known funds such as Government Pension Fund Global of Norway and Public Investment Fund of Saudi Arabia.[39] Their mandates are usually to safeguard and build their nations' financial wealth for future generations by diversifying the economy.

In recent years, a new wave has begun in which SWF funding originates from non-commodity sources, such as international reserves or pension funds. The mandates of these non-commodity SWFs are also different. For instance, GIC Private Limited of Singapore aims to achieve good long-term returns and to enhance the state's long-term purchasing power[40], while the National Investment and Infrastructure Fund of India and the Ireland Strategic Investment Fund aim to promote the economic interests of their respective countries.[41]

BNSF is eager to join this growing movement of non-commodity SWFs. Fund managers have found the model of three funds to be of interest: Ireland Strategic Investment Fund, Bpifrance Investissement, and China Investment Corporation (referred to later as the Irish fund, French fund, and Chinese fund).

Ireland Strategic Investment Fund: A Model for BNSF?

Of the three funds in focus, the Irish fund is the most similar to the UK government's vision for BNSF.

The Irish fund is a non-commodity-based SWF established in December 2014 with a mandate to "invest on a commercial basis in a manner designed to support economic activity and employment in Ireland". In particular, BNSF managers have focused on the Irish fund's €8.1 billion Discretionary Portfolio. This portfolio has a unique "double bottom line" mandate of achieving economic impact and commercial returns: the fund seeks to support Irish economic activity and employment, while targeting a return of 4% per annum on a five-year rolling basis.[42] Evidently, there is a parallel between the Irish fund's discretionary portfolio and BNSF in their mandates since both funds focus on their nations' economic growth and well-being of their citizens.

In 2019, the Irish fund unveiled a new investment programme in line with Project Ireland 2040, which is the Irish government's long-term plan to rebuild national infrastructure.[43] The fund will consider this plan's five priority themes to better support Irish economic activity and employment: 1) regional development, 2) housing, 3) indigenous businesses, 4) climate change, 5) Brexit. BNSF found three of the themes as possible inspirations for its investment strategies.

The regional development theme consists of a €500 million to €750 million investment programme. It focuses on investing in four Irish cities who have the potential to become economic alternatives to Dublin, which has an "overconcentration of population, homes and jobs" as Ireland's capital. The economy of the country's three regions – Northern & Western, Southern, and Eastern & Midland – will also be revitalized by more foreign direct investment, as well as improved transport and housing infrastructure. BNSF finds this theme interesting due to a similar situation in the UK: most economic activities take place in Greater London, while the regions beyond southern England face decline due to their concentration in the declining manufacturing industry.

The indigenous businesses theme stresses the importance of developing 100 local businesses in Ireland over five years to become internationally competitive. In addition to providing direct equity or debt in Ireland's small and medium enterprises from specialist sectors, the Irish fund will increase venture capital investments to develop a pool of early-stage companies for economic growth. For BNSF, the fast-paced technology industry in the UK has piqued its interest, but the fund is also contemplating the development of new specialist industries to replace manufacturing.

Finally, BNSF managers found the Brexit theme to be a warning sign, as the Irish fund plans to diversify Irish businesses and products away from the UK. Irish companies will increasingly rely on non-UK-based distribution routes to find new customer bases. Therefore, BNSF must protect British businesses' economic independence during the post-Brexit withdrawal of investments and foreign partners, while continuing to source foreign direct investment however possible.

The Chinese and French SWFs: Alternative Strategies for BNSF

Despite its likeness to the Irish fund, BNSF recognizes a broader range of possible strategies for a non-commodity SWF. The examples of the Chinese and French funds highlight that each SWF is distinct.

The mandate of the Chinese fund is to diversify China's foreign exchange holdings and seek maximum returns with an acceptable risk tolerance.[44] It is therefore open to foreign investments for diversifying the nation's foreign reserves.

In contrast, the French fund aims to contribute to the creation and growth of French companies and generate strong and sustainable returns.[45] As of 2018, €12.2 billion of the French fund's €32 billion in assets are invested in large companies instrumental for France's economic development. The French fund is therefore less open to foreign investments and targets French entities mostly.

The Irish fund seems to act as a middle ground between the Chinese and French funds: it wishes to emphasize its domestic businesses, but the currently limited opportunities force the fund to invest globally to reach its return target.

Complexity of BNSF's Triple Mandate

BNSF's triple mandate is complex due to the fund's aim to maximize returns while protecting the UK's economic independence and citizens' welfare. Economic independence is the state of a national economy free from interference by foreign governments, enterprises, and individuals. The challenge for BNSF lies in the fact that satisfying the needs of UK industries and citizens may not necessarily benefit BNSF in terms of financial profitability. The BNSF board asked fund managers many questions regarding investment trade-offs and uncertainties created, and they couldn't agree on how to resolve them.

Should BNSF rescue declining industries and sacrifice economic growth?

This is a challenge with which most countries grapple: BNSF could save declining industries through investments, but it would potentially face a low investment return due to their lack of competitive advantage over foreign competitors. An example of such an industry is steel. The steel industry used to be a major player among UK industrial sectors, but its employment has declined rapidly in the past two decades.[46]

Despite its lack of competitiveness, steel is still an essential industry in the UK. It is possible that neither foreign nor local investors are willing to save UK manufacturers from insolvency and liquidation. Without British steel, UK automotive and machinery manufacturers must import from the EU and pay high tariffs. To save numerous jobs in Britain's poorest regions and maintain post-Brexit economic independence, BNSF can make direct investments or form strategic partnerships with steel manufacturers.

However, the UK has not subsidized its steel industry as much as other European nations like Germany, leaving local steel manufacturers to be at a competitive disadvantage.[47] Even if they increased their participation in the export market, BNSF would possibly receive a low return from its steel investments. The same situation applies to many of UK's manufacturing and fossil fuel industries, as Britain shifts to a service-based economy running on renewable energy.[48]

Should BNSF create national champions with high venture risk and limited resources?

Instead of investing in sectors subject to ultimate decline or foreign takeovers, the UK could develop its own specialist sectors through funds from institutional investors such as BNSF or venture capital funds. These sectors would rely mostly on British expertise and grow to become dominant globally without relying on foreign partners. The risk, however, is a high risk of failure and loss of investments for a small chance of spectacular returns upon success.

In contrast to the steel industry, the British technology sector presents attracting investment opportunities. In 2019, the investment in the UK technology start-ups reached £10.1 billion, of which the majority has been directed to financial technology, artificial intelligence, and clean energy.[49] While London remains the country's technology center, significant technological clusters in cities such as Manchester and Bristol are taking shape.[50]

To form industrial specializations in the UK, BNSF could invest in high-growth industries through sector-specific funds. This strategy is inspired by the rapid industrialization of the Four Asian Tigers: Hong Kong and Singapore focused on building financial powerhouses, while Taiwan and South Korea became leaders in electronics manufacturing.[51] Notably, the Tigers sustained more than 6% in annual growth between 1960s and 1990s.[52]

Nonetheless, such investments require a high risk tolerance and venture capital expertise, as up to 20% of UK start-ups fail within 12 months and 60% fail within 3 years.[53] If these portfolio companies succeed, they would not only create exceedingly high returns for BNSF, but also help the UK develop its own competitive sectors and its economic independence. However, given the limited financial resources of BNSF, it is unclear whether the small possibility of spectacular returns is worth the investment.

Should BNSF expand global influence or consolidate local businesses?

Fund managers have struggled with the best path to pursue economic independence. As the UK's new national champions are formed, BNSF could help expand their export network to become global champions on whom other countries rely. Or, the UK could become more independent by focusing on small and medium-sized enterprises whose cash flows all come from within the country.

The UK has a track record for producing global champions beyond its well-known banks like HSBC. On the Forbes Global 2000 and Fortune 500, the UK is well represented by pharmaceuticals such as GlaxoSmithKline or supermarket chains including Tesco and Sainsbury's.[54] Like the Four Tigers, the UK could create new specializations through these potential champions or new venture-funded sectors.

Alternatively, BNSF could follow the Irish fund in concentrating more on small and medium enterprises. These companies with fewer than 250 workers employed 60% of British workers as of 2019.[55] Nearly 18% of these enterprises operate in construction, while 15% provide professional services including legal, accounting, and engineering design.[56] Instead of revamping British multinationals, the fund could prepare these small and medium companies to depend on mostly UK-based resources and consumers, in order to increase their self-reliance and shield them from the inevitable withdrawal of foreign capital. Ultimately, BNSF could even shape them to become internationally competitive.

Should BNSF help renationalize infrastructure to better serve British interests?

Investing in declining industries or creating new specialized companies would likely enrich small groups of investors and workers. In contrast, better infrastructure like national broadband networks and regional railways could potentially benefit citizens across the UK. In 2019, the quality of British infrastructure was ranked behind France, Germany, and the Netherlands, and the country's spending is among the lowest of G7.[57] The Treasury has promised £600 billion in infrastructure spending, but the government will also need to rely on institutional investors like BNSF to provide funding for large-scale projects.[58]

UK citizens have become frustrated by the poor quality of existing infrastructure, many of which were privatized during the 1980s.[59] UK citizens have often blamed the constant delays and rising fares on these foreign parents' profit motives, and 64% of them called for the renationalization of Britain's rail industry in recent surveys.[60] They believe that railways will be vastly improved when they return under UK government control, as public ownership can better align operators' corporate interests with needs of the British people.

BNSF could help regain control of infrastructure operators, but decades have passed since they were last public entities. It is unknown how much more the UK government could improve the nation's infrastructure by taking it over from foreign owners. Renationalization undoubtedly requires exhaustive spending and post-Brexit UK may lack the foreign capital needed for such projects. As for BNSF, it may not have the financial capacity to become a block holder in multiple infrastructure companies. Fund managers have asked themselves if large-scale infrastructure projects are therefore feasible for BNSF.

Should BNSF become an impact investor?

BNSF could further guarantee UK citizens' welfare by becoming an impact investor. SWFs have traditionally focused mainly on economic profitability and invested with the objective of enriching the nation or becoming more economically independent. Instead, BNSF could pursue impact investing, which consists of actively investing in organizations or companies that generate positive social or environmental impact.[61] Capital would be injected according to sectors such as sustainable agriculture or themes including underserved communities and gender equity.

The fund could tackle social issues like unemployment by investing in social enterprises such as The Big Issue, which is a street newspaper that employs homeless individuals or those in poverty to sell magazines and earn stable income.[62] In addition, BNSF could follow the Government Pension Fund of Norway in explicitly excluding investments creating social or environmental harm, such as the production of fossil fuel, tobacco, or nuclear weapons.[63] Furthermore, BNSF could implement quantitative targets such as investing to decrease the UK's Gini ratio. These new measures could ensure that even the neediest individuals in Britain would reap the benefits of the UK's new SWF.

As an impact investor, however, BNSF risks earning relatively lower returns compared to investing in other sectors. In addition, once the fund begins impact investing, it may be expected by citizens to continue out of moral obligation even if the investments are detrimental to its profitability. After all, BNSF could be excluding the UK's most profitable multinationals from its investment portfolio, including BP, British American Tobacco, or Rio Tinto.[64] Thus, fund managers question whether impact investing is the right strategy for BSNF.

Should BNSF invest in foreign firms that contribute to the UK economy?

For some board members, the attractiveness of British ownership has overshadowed the growth that foreign parents have brought to the UK. By pushing foreign owners out to establish economic independence, BNSF might put the UK's citizens at risk. In contrast, it may be profitable for the fund to invest in these non-British companies. In the UK's most recent business survey, only 1.2% of UK businesses are foreign-owned, but they contribute 28.3% in gross value added to the British economy and employed 14.8% of UK workers.[65] Clearly, UK industries have come to rely on the presence of foreign giants and their investments to create jobs for local workers.

Taking Amazon as an example, the company's biggest European market is in Britain, where it has invested over £9.3 billion in operations since 2010.[66] In 2019, Amazon created 2,000 jobs varying from entry-level positions such as warehouse workers to high-skilled posts including engineers, software developers, data scientists, and machine learning experts.[67] Moreover, the most well-known manufacturing sector in the UK – its famous carmakers – is almost entirely owned by foreigners: Jaguar Land Rover is now a subsidiary of Indian conglomerate Tata, while Rolls-Royce and Bentley are owned by Germany's BMW and Volkswagen respectively.[68]

BNSF could consider the French fund's approach of block ownership.[69] By owning a significant amount of equity in foreign ventures, the fund would hold considerable influence over non-British parents' investment decisions in the UK. BNSF would not only act as a delegate for these firms' British workers, but also prevent the departure of foreign companies from Britain, which could lead to economic catastrophes. On the other hand, BNSF could simply reduce the UK's reliance on these foreign giants. Some board members believe that investing in Britain's own counterparts to firms like Amazon or buying back ownership of UK companies are more adequate solutions.

If the unpredictable Brexit and the broad range of SWF models weren't complex enough, the triple mandate has made BNSF managers' plans for an investment program even more complicated. To top it off, they must convince a seven-person board of directors, each of whom has a very different vision for BNSF.

BNSF's Board of Directors

The BNSF board is composed of seven experienced and respected individuals in their respective fields, providing seven diverging viewpoints on how to translate the UK's financial and socio-economic priorities into investment philosophies for the new SWF.[70]

Aadi Singh, Chief Secretary to the Treasury

Aadi serves as the deputy head of the Treasury and has control over public expenditure and investments. He believes that declining industries such as manufacturing still need continued support from investors, while the idea of creating new national champions requires too much venture risk and financial resources. BNSF should prioritize UK-based firms and make investment decisions that benefit all British citizens equally, while maximizing returns for taxpayers.

Lewis Hughes, Secretary of State for Business, Energy, and Industrial Strategy

Lewis ensures that the government maintains good relations with British businesses through industrial strategies. Many industries in decline are essential for certain regions and local small and medium enterprises. BNSF should invest in these companies to shield them from the presence of foreign giants, instead of focusing on national champions or multinationals. Moreover, the fund should consolidate local businesses to bring the UK to the vanguard of technological innovation and scientific research.

Anna Aylmer, Secretary of State for International Trade[71]

Anna is responsible for securing the UK's trade agreements. She seeks to make the post-Brexit British economy more attractive for foreign investors by creating new, specialized giants in the UK and expanding these British champions' global business network. Additionally as the Minister for Women and Equalities, Anna hopes for BNSF to invest in social enterprises reducing inequality in the UK. She is thrilled by the idea of adding the Gini ratio to the fund's evaluation of investments.

Elizabeth Shelby, Head of Macquarie Infrastructure and Real Assets

Elizabeth has been at the forefront of infrastructure investing for many years, and she believes that her industry would best revitalize the UK economy. Infrastructure projects have generated many jobs and business opportunities for British companies across multiple sectors, including finance, engineering, and construction. However, infrastructure should not be renationalized, since operators are much less efficient under government control.

Oliver Edwards, CEO of HSBC Global Banking and Markets

Oliver is a CFA charterholder and leads the investment banking and capital market operations of the largest bank in the UK. He believes that the fund could invest in both competitive foreign firms bringing jobs and capital to Britain and UK-based corporations making lucrative acquisitions internationally.

Robert Grey, CEO of Apax Partners

Robert manages one of the leading private equity firms headquartered in London, and thus has much experience in transforming distressed companies into dominant corporations in their respective fields. BNSF should invest in local enterprises across the UK with room for advancement, no matter if they are small and medium companies or multinationals.

Laura Spencer, Managing Partner of Balderton Capital

Laura is among the most prominent British venture capitalists and has a hand in the rise of fintech and clean energy in the UK. She believes that BNSF should take on venture risk and invest in start-ups with potential to become national champions. Furthermore, the fund should embrace the trend of sustainability through its impact investments, whether it is to combat global warming or the widening income gap in the UK.

Report Guidelines

For their proposals, participants should submit a 1-page executive summary and a detailed report. The report should not exceed 7 pages (excluding the executive summary, references and appendices). There are no required fonts nor text formatting, but the report will be evaluated based on its clarity, presentation, and conciseness.

The submission should not contain any indication of the participants' university to avoid any bias from the judges. Instead, participants should create an alternative team name for their investment consultancy firm working with the BNSF. This alternative name should also bear no link to the team's university name nor location, in order to ensure the fairness of the competition.

Participants are expected to pitch a long-term asset allocation strategy for the first £20 billion issuance in the first quarter of 2021. They are free to pursue their investment strategy and asset allocation in any direction, as long as they propose realistic and feasible solutions for the BNSF. The strategy should fulfill BNSF's triple mandate and address the concerns raised by BNSF's board members.

The case is intentionally designed to be open-ended. Participants should feel free to make assumptions wherever needed and use any data they see fit. All facts presented in the case merely act as guiding points, so the participants are free to incorporate only the sections that they need.

We strongly recommend that participants take a look at the 1) pedagogical notes about past winning proposals available on the MIPC website, and 2) the post-mortem documents from MIPC 2018 and 2019 that are included in the emailed case package. These documents will give participants a lot of clues about what judges look for in winning proposals.

Sources and Notes

[1] Everything related to the BNSF is entirely fictional, including its structure, financing, mandates, investment options, and policy choices. Any aspect of the BNSF reflecting similar or identical decisions taken by the UK government are purely coincidental.
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70 All characters, except "Anna Aylmer", are entirely fictional, and any resemblance to actual persons is purely coincidental.
71 The character "Anna Aylmer" possesses the role of both the UK International Trade Secretary and Minister for Women and Equalities, which is based on the post of UK politician Liz Truss as of September 2020. However, the political opinions and proposed policies of "Anna Aylmer" do not reflect those of Ms. Truss, and any similarities are purely coincidental.