The Sky Did Not Fall
HIGHLIGHTS OF THE SWF ANNUAL REPORT 2015

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Sovereign Wealth at a Turning Point  
FX reserves are adjusting to the New Normal

- FX decline since 2014: $318bn (-16 %), primarily Saudia Arabia, China, and Russia
- Capital flight from EM and China forced FX liquidation to stem currency devaluation
- Estimated budget deficit in GCC in 2016: $150bn, 10 % of region GDP
The End of the Petrodollar Put?
Oil and equity prices, 2003-2016

- Since early 2000, high oil (and commodity in general) prices put a floor to equity prices, and contributed to momentum building.
- The oil crash did not disrupt equity markets, but oil prices will hardly cushion market valuations in the future.
• In 2015, the total AUM of SIL SWF reached $5trn, with a 6% increase relative to previous year
• With a few exceptions (Russian NWF), asset divestiture involved primarily central banks and stabilization funds, not SWFs…
What is a SWF?
The SIL SWF Definition

A SWF is an investment vehicle:

1. Owned directly by a sovereign government
2. Managed independently of other state financial and political institutions
3. Without predominant explicit liabilities
4. Investing in a diverse set of financial asset classes in pursuit of commercial returns
5. Has made a significant proportion of its publicly reported investments internationally
More Deals, Less Value
SWF direct equity investments since 2000

- **186 deals** worth **$48 bn** in 2015
- **40%** increase in the number of transactions and **23%** decrease by value relative to 2014, lowest level since 2010
- Average ticket size drop to **$355ml** suggesting a more conservative strategy, aimed at better diversification
The Big Sell-off?
SWF equity disinvestments by SWF home country and sector, 2015

- **70** equity disinvestments for a total of **$22.5 bn**, quite evenly split by fund type
- Sales did not eclipse new investments: net acquisitions worth **$25.5 bn**
- China, Singapore, and Kazakhstan most active in redemptions, heavily skewed in the financial and energy sectors
Following a Common Trend…
SWF investments by source and the oil price, 2000-2015

- Trade surplus (CIC, Temasek, GIC, etc.) and resource-related SWFs (GPFG, ADIA, QIA, etc.) moved in tandem, both reducing their investments by 10% relative to 2014
- Apparently, no sovereign wealth redistribution between energy-importing and exporting countries
The Flight to Safety
SWF investments in safe assets*, 2006-2015

* Safe Assets category includes Infrastructure & Utilities, Real Estate and Restaurants, Hotels, Motels sectors.

- Safe assets investments continue to grow: in 2015 they account a stellar 57% of total SWF investment
- Low risk asset-substitution (government bonds), inflation hedging in QE, illiquidity premia are driving enhanced exposure
The Unstoppable Rise of Real Estate
Value of SWF direct equity investments by target sector, 2006-2015

- With 31 deals worth $23.4bn, in 2015 RE accounts for 23% of deal value, with a penchant for commercial property in US and London.
- In relative terms, increased exposure to financial sector in EM, notably Turkey (QIA), China (a global SWF alliance for HK CITIC), and India.
• Unsurprisingly, while Oil&Gas disappears and safe assets gain ground, brand-new sectors enter the radar screen: retail, health care, and IT.
• Domestic bail-outs of Big4 banks by usual suspect CIC’s Central Huijin
• Increasing SWF appetite for IT, new economy, and electronics: in 2015, $3.4bn invested in the sector, often providing early stage financing
• Temasek, the top spender in the sector, created Vertex Ventures, its VC arm
• SWFs heavy betting in IT: Kazakhstan’ Samruk-Kazyna, ADIC, ADIA, and QIA (with Sequoia and KPCB), CIC
The Rise of Sovereign-Private-Partnerships
Value of SWF co-investments, 2011-2015, and distribution by type

- Co-investments are gaining momentum and account for 50% of total deal value
- SWFs alliances less common, 93% are collaboration with a strategic partner, or a financial player with complementary assets/expertise (pension fund, PE, VC)
- ADIA-PSP Exeter Property Group; ADIA-KIA-CDPQ Australia TransGrid; KIA-Temasek-GIC-Khazanah CITIC
Going Global
SWF investments at home/abroad and by target region, 2006-2015

- SWF invested a stellar 94% abroad, aiming at intergenerational wealth preservation by global diversification of investments
- Reallocation in favour of Europe and Non-Pacific Asia, against US (still main market though) and mostly MENA
- Australia, India, Turkey under the spotlight
$16.2bn invested in Europe. The United Kingdom still the main market, but since 2014 deal value cut in a half: the share of investments in the UK drops from 70 to 37%.

- QE driven currency depreciation pushed EZ countries: utilities and transports in Spain, Germany, and IT in Netherlands.
- Italy second largest market: with $1.9bn, thanks to QIA’s completed acquisition of Porta Nuova and Hotel Excelsior, and CIC partnership with F2i Sgr.
The biggest spenders
Value of direct investments by top spending SWFs, 2015

- Singaporean SWF stick out: Temasek and GIC lead ranking with 76 reported equity investments worth $13.2bn

- QIA reorganization and continuity: for the third year in a row, QIA is top spender with a 25% share of investments

- An hyperactive CIC: sizable investments in Eurozone countries, new branch in NYC, CIC Capital focused on direct equity investments
In the worst of times,

• contrary to popular perception, SWFs (net) investment continued and AUM even increased
• adjustment to New Normal implies that with less inflows SWFs will seek internal growth
• change in SSA: less low-yield, more safe assets to capture illiquidity premia and global diversification of investments (by size, geography, and sector)
• SWF XXI century challenges: institution-building to diversify away from oil, long-term investment to boost global growth

Stay tuned...
Thank you