Towards a New Normal

HIGHLIGHTS OF THE SWF ANNUAL REPORT 2014

Bernardo Bortolotti, SIL, Università Bocconi

ISPI, Palazzo Clerici, 29 June 2015
Sovereign Investment Workshop
The New Normal
Forget the Good Old Days…

- The great convergence
- Oil shock legacy
- Ultra-low yields environment under QE
The New Normal
Implications for SWFs

• Lower inflows from FX
• Internal asset growth
• Implicit liabilities materialize
The Sovereign Investment Landscape

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
Less deals, more value
SWF Direct Equity Investments since 2000

- **133 deals** worth **$68.7 bn** in 2014
- **39%** increase by value and **23%** decrease in the number of transactions of 2014
- Oil shock effects only partly materialized…
SWFs behavior and price shocks
SWF Investments by Source and the Oil Price, 2000 - 2014

- Trade surplus (CIC, Temasek, GIC, etc.) SWFs tend to be more “procyclical”, while resource-related SWF (NBIM, ADIA, QIA, etc.) react with a lag to commodity price movements.
The rise of mega-deals
SWF Average Deal Size since 2000

- 80% increase in the average deal size relative to 2013, reaching $516ml
- SWF average deal value is **eight-fold** benchmark private sector transactions
- In 2014, the **top ten** acquisitions accounted for **50%** of total deal value
The unstoppable rise of Real Estate
Value of SWF Direct Equity Investments by Target Sector, 2006 - 2014

- With **32** deals worth **$31.5bn**, in 2014 investment in RE reach an all time hit, primarily in US and London
- Once target sector of choice, the financial industry raises less than **10%** of deal value, with $2bn Russia National Wealth Fund bail-out of VTB Bank sticking out
The flight to safety
SWF Investments in Safe Assets*, 2006 - 2014

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

• Inflation-proof, low-risk safe assets investments continue to grow: in 2014 they account for 46% of total SWF investment
The shift to active deal-making
QIA’s conquest of Canary Wharf

- December 2014: QIA purchases $1.8bn of newly issued preferred equity shares of Brookfield Property Partners (BPP), a Canadian fund manager.
- QIA and BPP launch a takeover bid for Songbird Estates, the majority owner of Canary Wharf
- Simon Glick, Morgan Stanley and CIC accept the $4.1bn offer.
- From passivity to shareholder activism
Intermezzo: SWF as venture capitalists
SWF Investments in IT-linked Sectors, 2008-2014

- Increasing SWF appetite for IT, new economy, and electronics: in 2014, $2.9bn invested in the sector, often providing early stage financing
### Intermezzo: SWF as venture capitalists

**SWF Investments in IT-linked Sectors over US$100 million, 2008-2014**

<table>
<thead>
<tr>
<th>Parent Entity Name</th>
<th>Target Name</th>
<th>Target Country</th>
<th>Year</th>
<th>Deal Size (Value US$M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GIC Pte Ltd</td>
<td>BMC Software Inc</td>
<td>USA</td>
<td>2013</td>
<td>$1,677.53</td>
</tr>
<tr>
<td>Mubadala Development Company PJSC</td>
<td>IBM’s Microelectronics Business</td>
<td>USA</td>
<td>2014</td>
<td>$1,500.00</td>
</tr>
<tr>
<td>Temasek Holdings Pte Ltd</td>
<td>Asialnfo.Linkage Inc</td>
<td>China</td>
<td>2014</td>
<td>$437.42</td>
</tr>
<tr>
<td>Temasek Holdings Pte Ltd</td>
<td>Alibaba Group Holding Ltd</td>
<td>China</td>
<td>2011</td>
<td>$400.00</td>
</tr>
<tr>
<td>GIC Pte Ltd</td>
<td>iParadigms LLC</td>
<td>USA</td>
<td>2014</td>
<td>$376.00</td>
</tr>
<tr>
<td>GIC Pte Ltd</td>
<td>Kronos Inc</td>
<td>USA</td>
<td>2014</td>
<td>$375.00</td>
</tr>
<tr>
<td>Qatar Investment Authority (QIA)</td>
<td>Samsung Electronics Co. Ltd</td>
<td>South Korea</td>
<td>2013</td>
<td>$300.00</td>
</tr>
<tr>
<td>Qatar Investment Authority (QIA)</td>
<td>BlackBerry Ltd</td>
<td>Canada</td>
<td>2013</td>
<td>$200.00</td>
</tr>
<tr>
<td>GIC Pte Ltd</td>
<td>Genpact Limited</td>
<td>India</td>
<td>2012</td>
<td>$150.00</td>
</tr>
<tr>
<td>New Zealand Superannuation Fund</td>
<td>Datacom Group Ltd</td>
<td>New Zealand</td>
<td>2013</td>
<td>$142.00</td>
</tr>
<tr>
<td>Mubadala Development Company PJSC</td>
<td>Advanced Micro Devices Inc</td>
<td>USA</td>
<td>2009</td>
<td>$125.00</td>
</tr>
<tr>
<td>Temasek Holdings Pte Ltd</td>
<td>Clouday Corp</td>
<td>China</td>
<td>2013</td>
<td>$110.00</td>
</tr>
<tr>
<td>GIC Pte Ltd</td>
<td>KKBox Inc</td>
<td>Taiwan</td>
<td>2014</td>
<td>$104.00</td>
</tr>
</tbody>
</table>

*Publicly available data for direct SWF equity & real estate deals, joint ventures and capital injections. Source: Sovereign Investment Lab, Università Bocconi*

- Increasing SWF appetite for IT, new economy, and electronics: in 2014, $2.9bn invested in the sector, often providing early stage financing
A more balanced geography
Value of Direct SWF Investments by Target Region, 2006 - 2014

- Developed markets get **55%** of investments, with Europe and the US
- China and MENA on the rise, LATAM under the radar screen
An unattractive Eurozone
Foreign SWF Investments in Europe, 2014

- The United Kingdom dwarfs EZ countries: in 2014, 71% of SWF investment landed in the UK, primarily in London property market, $7.1bn from QIA
- Italy (finally) on the radar screens: with $2.1bn, first target country of EZ thanks to sizable investments by Mubadala (Piaggio Aero), KIA-FSI JV, QIA (St. Regis Hotel and DB branches)
Winners and losers
SWF Investments by Target Country in 2013 and 2014

- USA and UK get additional $13bn, doubling inflows. China recovers spectacularly
- Crisis hit Russia, and France biggest losers
Gulf’s SWFs investments by region
Investment Flows from Middle East & North Africa SWFs 2014

- In 2014, Gulf’s SWF invested $31bn, of which $12bn within the region
- Strong regional or domestic focus by QIA (acquiring Barwa RE) and by EIA (acquiring TLC operator Itissalat in Morocco)
Asian SWFs investments by region
Investment Flows from Asia-Pacific SWFs 2014

• In 2014, Asian SWFs invested $31bn, of which $14bn within the region
• Again, strong regional or domestic focus by China NSSF (acquiring CITIC Pacific) and by Temasek (acquiring Li Ka-Shing’s AS Watson retailer)
The big spenders
Value of Direct Investments by Top Spending SWFs, 2014

- Singaporean SWF stick out: Temasek and GIC lead ranking with equity investments worth $28bn, stepping up deal size
- Changeover at QIA meant continuity: in 2014, QIA is again top spender with a 30% share of investments
- Of to Norway’s GPFG enter the ranking due to (unusually) large RE deals
Towards a New Normal

Testing times for SWFs:

• Game-changes in the global economy are shaping SWF mission, behavior, and strategies
• In the quest for internal growth, we expect more equity, and more safe assets to capture illiquidity premia
• Governance will be key

Stay tuned…
Thank you