Cautious Change

HIGHLIGHTS OF THE SWF ANNUAL REPORT 2012
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Venice, Sovereign Investment Lab Workshop, June 28, 2013
## The sovereign investment landscape

<table>
<thead>
<tr>
<th>Official Reserves/ Central Bank</th>
<th>Stabilization Funds</th>
<th>Pension Funds</th>
<th>Sovereign Wealth Funds</th>
<th>Domestic Development Funds</th>
<th>State Owned Enterprises</th>
</tr>
</thead>
</table>
| • External assets for directly financing international payment imbalances  
  • Highly liquid, often OECD government bonds | • Funds to insulate budget and economy from excess volatility, inflation, Dutch disease, & other macro-economic threats  
  • Low-risk, liquid assets: cash government bonds | • Investment vehicles to meet government's future pension obligations  
  • Funded and denominated in local currency  
  • Explicit liabilities | • Sovereign owned  
  • Independent  
  • Limited explicit liabilities  
  • Investing for commercial return  
  • Significant investment abroad | | • Companies in which the state has significant control  
  • May make investments in foreign assets |

### EXAMPLES

<table>
<thead>
<tr>
<th>Official Reserves/ Central Bank</th>
<th>Stabilization Funds</th>
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</table>
| • Economic and social Stabilization Fund (Chile)  
  • Pula Fund (Botswana)  
  • Oil Stabilisation Fund (Iran) | • California Public Employees’ Retirement System (US)  
  • National Pension Service (Korea) | • Abu Dhabi investment authority  
  • Government of Singapore Investment Corp.  
  • Qatar Investment Authority  
  • China Investment Corporation | | | • CNOOC (China)  
  • Gazprom (Russia)  
  • SABIC (Saudi Arabia) |

### INVESTMENT RISK
**Sovereign Wealth Funds AUM, 2012**

<table>
<thead>
<tr>
<th>Country</th>
<th>Fund Name</th>
<th>Inception Year</th>
<th>Source of Funds</th>
<th>AUM (US$bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norway</td>
<td>Government Pension Fund – Global³</td>
<td>1990</td>
<td>Commodity (Oil &amp; Gas)</td>
<td>745.00</td>
</tr>
<tr>
<td>China</td>
<td>China Investment Corporation¹</td>
<td>1976</td>
<td>Trade Surplus</td>
<td>482.20</td>
</tr>
<tr>
<td>UAE - Abu Dhabi</td>
<td>Abu Dhabi Investment Authority¹</td>
<td>1990</td>
<td>Commodity (Oil &amp; Gas)</td>
<td>450.00</td>
</tr>
<tr>
<td>Kuwait</td>
<td>Kuwait Investment Authority¹</td>
<td>2007</td>
<td>Commodity (Oil &amp; Gas)</td>
<td>296.00</td>
</tr>
<tr>
<td>Singapore</td>
<td>Government of Singapore Investment Corporation¹</td>
<td>1953</td>
<td>Trade Surplus</td>
<td>220.00</td>
</tr>
<tr>
<td>Russia</td>
<td>National Wealth Fund and Reserve Fund¹</td>
<td>2006</td>
<td>Commodity (Oil &amp; Gas)</td>
<td>172.50</td>
</tr>
<tr>
<td>Singapore</td>
<td>Temasek Holdings²</td>
<td>1981</td>
<td>Trade Surplus</td>
<td>157.00</td>
</tr>
<tr>
<td>China</td>
<td>National Social Security Fund²</td>
<td>2002</td>
<td>Trade Surplus</td>
<td>141.40</td>
</tr>
<tr>
<td>Qatar</td>
<td>Qatar Investment Authority¹</td>
<td>1974</td>
<td>Commodity (Oil &amp; Gas)</td>
<td>135.00</td>
</tr>
<tr>
<td>Australia</td>
<td>Australian Future Fund¹</td>
<td>2006</td>
<td>Non-Commodity</td>
<td>63.10</td>
</tr>
<tr>
<td>UAE - Dubai</td>
<td>Investment Corporation of Dubai²</td>
<td>2006</td>
<td>Commodity (Oil &amp; Gas)</td>
<td>72.00</td>
</tr>
<tr>
<td>Libya</td>
<td>Libyan Investment Authority¹</td>
<td>2003</td>
<td>Commodity (Oil &amp; Gas)</td>
<td>64.20</td>
</tr>
<tr>
<td>UAE - Dubai</td>
<td>International Petroleum Investment Company¹</td>
<td>1984</td>
<td>Commodity (Oil &amp; Gas)</td>
<td>60.00</td>
</tr>
<tr>
<td>UAE - Abu Dhabi</td>
<td>Mubadala Development Company - FUSC¹</td>
<td>1993</td>
<td>Commodity (Oil &amp; Gas)</td>
<td>55.00</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>Kazakhstani National Fund¹</td>
<td>1983</td>
<td>Commodity (Oil &amp; Gas)</td>
<td>52.20</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>Korea Investment Corporation¹</td>
<td>2006</td>
<td>Government Linked Firms</td>
<td>43.00</td>
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<tr>
<td>Malaysia</td>
<td>Khazanah Nasional Berhad²</td>
<td>2000</td>
<td>Government Linked Firms</td>
<td>40.20</td>
</tr>
<tr>
<td>Brunei</td>
<td>Brunei Investment Agency²</td>
<td>1983</td>
<td>Commodity (Oil &amp; Gas)</td>
<td>39.00</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>State Oil Fund of Azerbaijan¹</td>
<td>1990</td>
<td>Commodity (Oil &amp; Gas)</td>
<td>34.20</td>
</tr>
<tr>
<td>Ireland</td>
<td>National Pension Reserve Fund¹</td>
<td>2001</td>
<td>Non-Commodity</td>
<td>19.60</td>
</tr>
<tr>
<td>New Zealand</td>
<td>New Zealand Superannuation Fund¹</td>
<td>2001</td>
<td>Non-Commodity</td>
<td>17.50</td>
</tr>
<tr>
<td>East Timor</td>
<td>Timor-Leste Petroleum Fund¹</td>
<td>2005</td>
<td>Commodity (Oil &amp; Gas)</td>
<td>13.00</td>
</tr>
<tr>
<td>UAE - Dubai</td>
<td>Istithmar World¹</td>
<td>2003</td>
<td>Government Linked Firms</td>
<td>11.50</td>
</tr>
<tr>
<td>Bahrain</td>
<td>Mubadala Holding Company¹</td>
<td>2006</td>
<td>Government Linked Firms</td>
<td>11.20</td>
</tr>
<tr>
<td>UAE</td>
<td>Emirates Investment Authority¹</td>
<td>2007</td>
<td>Commodity (Oil &amp; Gas)</td>
<td>10.00</td>
</tr>
<tr>
<td>UAE - Abu Dhabi</td>
<td>Abu Dhabi Investment Council¹</td>
<td>2006</td>
<td>Commodity (Oil &amp; Gas)</td>
<td>10.00</td>
</tr>
<tr>
<td>Oman</td>
<td>State General Reserve Fund¹</td>
<td>1980</td>
<td>Commodity (Oil &amp; Gas)</td>
<td>8.20</td>
</tr>
<tr>
<td>UAE - Dubai</td>
<td>Dubai Investment Corporation of Dubai²</td>
<td>2006</td>
<td>Commodity (Oil &amp; Gas)</td>
<td>0.60</td>
</tr>
<tr>
<td>Vietnam</td>
<td>State Capital Investment Corporation¹</td>
<td>2005</td>
<td>Government Linked Firms</td>
<td>0.60</td>
</tr>
<tr>
<td>Kiribati</td>
<td>Revenue Equalization Reserve Fund¹</td>
<td>1956</td>
<td>Commodity (Phosphate)</td>
<td>0.50</td>
</tr>
<tr>
<td>São Tomé &amp; Príncipe</td>
<td>National Oil Account¹</td>
<td>2004</td>
<td>Commodity (Oil &amp; Gas)</td>
<td>&lt; 0.01</td>
</tr>
<tr>
<td>Oman</td>
<td>Oman Investment Fund</td>
<td>2006</td>
<td>Commodity (Oil &amp; Gas)</td>
<td>Unknown</td>
</tr>
<tr>
<td>UAE - Dubai</td>
<td>Dubai International Financial Center¹</td>
<td>2006</td>
<td>Government Linked Firms</td>
<td>Unknown</td>
</tr>
</tbody>
</table>

- 33 SWFs meeting the SIL definition
- Total AUM: US$ 3,447bn
- Oil&Gas AUM: US$ 2,216bn
Macroeconomic drivers: FX reserves

- World FX reserves (as of 2012): US$11.5trn; **EM US$7.5trn (66%)**
- Exponential growth: FX increased **7X** since 1999, especially in China and MENA

*Source: IMF International Financial Statistics (IFS), 2013/3*
Macroeconomic drivers: oil prices

Source: Thomson Reuters
SWFs are here to stay...

- Fastest growing class of asset owners since 2010 (24%)
- Projected to exceed the $8tn mark in 2016 by internal growth and transfers from current account surpluses

Source: Castelli and Scacciavillani, 2012

Source: CityUK
SIL’s SWF Transaction Database methodology

Publicly available sources of SWF activity

Subscription databases, press articles, websites and funds, and recipient companies

Limited transparency and spotty reporting

Focus on direct investment in equities and real estate

5,223 deals, 1,391 state-owned acquirers, 1980-2012

Funds meeting SIL definition

DATA COLLECTED

SWFs deals

33 funds, 1,890 deals $558.49 bn investment

Final Database

DATA CHECKED AND VERIFIED
Trends and cycles
Direct SWF Investments since 2000

- 270 deals worth $58.4bn in 2012
- 14% increase in number of deals and 30% decrease in value since 2011
- Smaller deals on average: in-house management, better diversification, better disclosure
In quest of diversification
Direct SWF Investments by Sector, 2012

Value of Direct SWF Foreign Investments by Target Sector, 2012

- Boom in **Real Estate**: $15bn and 26% of total investment (50% annual increase), both in trophy assets (mainly London) and development (M+S Pte Ltd)
- Surge in **commodities** (including O&G) and associated processing industries: $15.8bn invested (Xstrata and Total deals worth $11.5bn)
The end of bank bailouts?
Domestic and Foreign Direct SWF Investments by Sectors, 2012

- **66** deals and **$14.3bn** invested in the financial sector, primarily abroad
- Bank bailouts in the West slowing down: QIA and Aabar called in in Credit Suisse and Unicredit
- Domestic recap in China (CIC’s Central Huijin usual lender of last resort…)}
The geography of SWF direct investment

SWF Investments by Value (US$bn)

Foreign SWF Investments by Value (US$bn)

- Strong increase in cross-border activity: in 2012, foreign deals account for 84% of investment
- Going South-South: since 2009, increasing share of foreign SWF investment within MENA, Asia, Africa and LA
Targeting Europe, with a twist...
Value of Direct SWF Investments by Target Region, 2012

- Europe the region of choice: 73 deals and $28bn of investment; slight decline in USA
- Not a confidence vote on Eurozone: UK and Switzerland account for 50% of foreign acquisitions by value
- SWFs seek exposure to emerging markets growth via European multinationals
A tale of two countries...
Foreign SWF Investments in Europe, 2012

- United Kingdom: **15 deals worth $11.8.** Highly skewed on Xstrata and RE
- France: **14 deals worth $10.1.** Qatar Holding shopping heavily across sectors: Total, Vivendi, Euteland Champs-Eliseès “Le Lido”
- Little Italy, but slowly in the move thanks to Abaar recap in Unicredit, Mubadala in Emi, QH JV with FSI
Follow the money
Target Country Ranking by Value (US$bn), 2000-2012
Follow the money
Target Country Ranking by Value (US$bn), 2012

- UK: 11.81
- France: 10.12
- China: 4.62
- Brazil: 2.97
- Singapore: 2.89
- India: 2.64
- Switzerland: 2.27
- US: 2.12
- Italy: 1.50
- Germany: 1.05
- Canada: 1.04
- Australia: 0.98
- Norway: 0.89
- Malaysia: 0.81
- Japan: 0.54
- Belgium: 0.14
- Indonesia: 0.10
Crossing Mare Nostrum…
Investment Flows from Middle East & North Africa SWFs, 2012

- MENA to North America: 7 deals, $1.3bn
- MENA to Europe: 37 deals, $18.4bn
- MENA to Latin America: 1 deal, $2.0bn
- MENA to Sub-Saharan Africa: 2 deals, $0.1bn
- MENA to Non-Pacific Asia: 4 deals, $0.0bn
- MENA to Pacific Asia: 26 deals, $2.8bn
- Within MENA: 23 deals, $1.7bn
The Asian Home Bias
Investment Flows from Asia-Pacific SWFs, 2012

- Asia-Pacific to North America: 27 deals, $2.1bn
- Asia-Pacific to Europe: 26 deals, $6.7bn
- Asia-Pacific to MENA: 2 deals, $0.0bn
- Asia-Pacific to Latin America: 11 deals, $1.0bn
- Asia-Pacific to Sub-Saharan Africa: 1 deal, $0.0bn
- Asia-Pacific to Non-Pacific Asia: 9 deals, $1.7bn
- Within Asia-Pacific: 81 deals, $17.1bn
Teaming up
Coinvestments by SWFs (% of total value in US$ and # of targets)

- In 2012, **41 co-investments** (2 or more SWFs on the same target) on 17 targets worth **$24.7bn**, 44 % of total deal value
- Treble dividend: improved diversification, cost savings, mitigation of political concerns
- Glencore-Xstrata: a landmark deal?
Teaming up (contd.)
A landmark deal?

• **Glencore-Xstrata:**
  - the fifth-largest takeover in the history of the natural resources
  - the third-largest global integrated commodity company by market cap

• Quintessence of SWF co-investment: QIA, Norway GPFG, and CIC involved

• QIA: the pivotal minority blockholder successfully bargaining for better terms

• The future of SWFs: From “Quiet Leviathans” to “Kingmakers”? 
QIA, the small giant
Value of direct Investments by Top Spending SWFs, 2012

- In 2012, QIA outgunned other SWFs with 37 deals worth $16.81, 29 percent of total direct investment value
- Usual suspects CIC, GIC and Temasek
- Kazanah Nasional Berhad “new kid on the block”
Cautious Change

2012 marked possibly a turning point in SWF investment strategy:

• Improved diversification
• From external to in-house asset management
• Shareholder activism
• Enhanced cooperation

Stay tuned...
Thank you