COMING OF AGE
The evolution of global SWF equity investment

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A sketch of SWF history

1. BEGINNINGS

- Countries which have either announced or planned the creation of a SWF
- Countries whose SWF does not fully comply with the SIL’s definition of SWF
The rise of SWFs, 2000-2007

In this period, SWF have been the fastest growing class in the global fund management industry with an annual growth rate in AUM of 17% and of 95% in equity investment, respectively.

**SWF assets under management (US$bn)**

- Total Oil & Gas Related
- Total Other

**SWF equity investments by fund type (US$bn)**

- Commodity SWFs
- Non-Commodity SWFs

Source: SWFI, TheCityUK

Source: SIL Database
The sovereign bailout

SWFs acting in concert with governments and central banks rescued Wall Street and other European big banks. The largest recapitalizations by SWFs have been, Citigroup $9.8bn (GIC & KIA), Barclays $8bn (QIA), Merrill Lynch $8bn (Temasek, KIA & KIC), Morgan Stanley $5bn (CIC)

SWF direct equity investment in banks

155$bn
Total investment in the financial industry in 2007-2009
The flight to safety

Low risk asset-substitution (government bonds), inflation hedging in QE environment, and illiquidity premia pushed SWF into «safe» alternatives such as real estate, infrastructure, and utilities, and out of the previous target sector of choice, the financial industry.

SWF equity investment by sector (US$bn)

Source: SIL
PLAYING THE LONG-TERM GAME
Oil price aftershock

**KEY TRENDS, 2014-2016**

- 11/2016: OPEC production cut, first since 2008
- Stabilization taking place, but unconventional sources put an upper floor ceiling to future price adjustments
- US climate and foreign policies should avoid market disruption in the near future
- Mid-term price forecast: $45-55/barrel
Structural break in FX dynamics

FX reserves by region (US$bn)

KEY TRENDS, 2014-2016

- 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
Hunting unicorns

With $19.8bn, SWF investments in high-tech companies account for 13.3% of investment value and 17.7% of total investments in the period, in the form of co-investments with VC/PE, rather than LPs.

SWF equity investment in IT-linked sector (US$bn)

Source: SIL
The rise of SPP

Investment alliances account for 35% of total deal value in the 2010-2016 period, especially Sovereign-Private-Partnership (SPP) with a strategic partner or a financial player with complementary assets/expertise (pension fund, PE/VC, RE or infrastructure specialist).
Going private

In the last years, SWF have increased their equity investments to unlisted targets. When operating in private markets, rather than outsourcing mandates to external managers or PE funds, opt for direct equity investments.
# SWFs coming of age

## Major changes to SWF investment framework

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<td><strong>Beginnings</strong></td>
<td><strong>Weathering the storm</strong></td>
<td><strong>In the New Normal</strong></td>
<td><strong>Playing the long-term game</strong></td>
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<td>• Building execution capabilities</td>
<td>• Countercyclical investments at home and abroad</td>
<td>• Increased exposure to alternative asset classes, especially RE and infrastructure</td>
<td>• Seeking internal growth by more active portfolios and skill-based strategies</td>
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<td>• Consolidate external management</td>
<td>• Focus on financial industry</td>
<td>• Harvesting the illiquidity premium</td>
<td>• Focus on private markets, insourcing and partnerships</td>
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<td>• Conservative asset allocation focused on liquid assets</td>
<td>• Full acceptance as responsible player in global financial markets</td>
<td>• Greater tolerance for risk and lower liquidity needs</td>
<td>• Going «thematic», focus on the long term drivers of returns</td>
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SWF in the XXI century

KEY TRENDS TO FOLLOW

— In the new energy scenario, resource-rich countries will strive to diversify their economies, and SWF will be out at work to catalyze local development, launching new sectors and enabling the private sector

— With mounting protectionism and global trade going south, SWF engines of growth will be a spent force in the foreseeable future

— Liabilities may materialize, forcing organizational changes, new risk management and investment frameworks

— SWFs are here to stay...
THANKS.