Hunting Unicorns
HIGHLIGHTS OF THE SWF ANNUAL REPORT 2016

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Magnum Chaos
SWFs grappling with global uncertainty

Lorenzo Lotto, wooden inlays of Santa Maria Maggiore, Bergamo, 1533
Magnum Chaos
SWFs grappling with global uncertainty

Global Economic Policy Uncertainty Index, January 2005 to June 2017

Pre 2005 Average: 90.14
Post 2005 Average: 120.25

Notes: Global EPU calculated as the GDP-weighted average of monthly EPU index values for US, Canada, Brazil, Chile, UK, Germany, Italy, Spain, France, Netherlands, Russia, India, China, South Korea, Japan, Ireland, Sweden, and Australia, using GDP data from the IMF’s World Economic Outlook Database. National EPU index values are from www.PolicyUncertainty.com and Baker, Bloom and Davis (2016). Each national EPU index is renormalized to a mean of 100 from 1997 to 2015 before calculating the Global EPU Index.

Source: http://www.policyuncertainty.com
Oil Price Aftershock
Oil and equity prices, 2007-2017

- **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
Austerity in GCC countries
Macroeconomic and fiscal adjustments

Fiscal stabilization took the form of subsidized energy cuts (Kuwait, UAE, Oman), reduction in public wage spending and delayed investments (Saudi Arabia), reserve drawdown, and debt issuance (Qatar).

GDP growth down from historic 4% to 2.5%
A Silver Lining in Asia?
Global trade picking up after “Great Deceleration”

- Global trade is showing signs of recovery, especially in China and Asian economies.
- Asian growth rates are expected to rise, contributing to global growth of 2.7 in 2017
- However, uncertainty looms large over trade policies
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
SIL’s List
The 38 SWFs meeting inclusion criteria
In 2016, the total AUM of SIL SWF reached $5.6trn, with a 12% increase relative to previous year.

Internal growth, new investments, and new entries (notably, Saudi PIF) are the drivers.

Drawdowns affected primarily stabilization funds, not SWFs.
• **158 deals** worth **$39.9bn** in 2016
• **14%** decrease in the number of transactions and **17%** decrease by value relative to 2015, lowest level since 2006
• Average ticket size drops to **$252mn** suggesting a more conservative strategy, aimed at better diversification
A Tale of Two SWF Types
SWF investments by source and the oil price, 2000-2016

- Resource-related SWFs experienced a $11bn contraction in their investments
- Non-commodity, trade surplus SWFs increased their spending by $3bn
- Divergent macro trends in commodity-exporting vs commodity-importing emerging countries (5.3% difference in GDP growth rates)
- A power shift among SWF underway?
The Big Shift
Value of SWF investments by target sector, 2007-2016

- Dramatic drop of investment value in real estate: $8.7bn, almost half the value from the previous year, still the second largest
- Banks under the radar screen, with all-time record low of $2.1bn, 5% of total value
- With 41 deals worth $15.9bn, the personal & business services sector accounts for 88% of the investments in the tech field and 39.9% of overall deal value
Hunting Unicorns
SWF investments in IT-linked sectors, 2008-2016

- With $13.4bn, SWF investments in high-tech companies account for 33.6% of investment value and 19.6% of total investments in 2016
- GIC’s Veritas Tech Corp. ($7.4bn), Temasek’s China Internet Plus ($3.3bn)
- The rise of Sovereign VC: direct investments with VC/PE, rather than LPs
- Low yields environment increases risk appetite, with IT becoming sector of choice
## Hunting Unicorns
### Top IT-Linked deals of 2016

<table>
<thead>
<tr>
<th>SWF</th>
<th>Target</th>
<th>Country</th>
<th>Deal Size (Value US$MN)</th>
<th>Partners</th>
</tr>
</thead>
<tbody>
<tr>
<td>GIC Pte Ltd</td>
<td>Multiplan Inc.</td>
<td>USA</td>
<td>$7,500</td>
<td>Hellman &amp; Friedman LLC, Leonard Green &amp; Partners LP</td>
</tr>
<tr>
<td>GIC Pte Ltd</td>
<td>Veritas Technologies Corporation</td>
<td>USA</td>
<td>$7,400</td>
<td>The Carlyle Group</td>
</tr>
<tr>
<td>China Investment Corporation (CIC)</td>
<td>Zhejiang Ant Small And Micro Financial Services Group Co., Ltd</td>
<td>China</td>
<td>$4,500</td>
<td>China Construction Bank, Postal Savings Bank of China, China Development Bank, Primavera Capital Tencent, DST Global, TBP Capital, Canada Pension Plan, Baillie Gifford, CDB Kai Yuan Capital, Capital Today,</td>
</tr>
<tr>
<td>China Investment Corporation (CIC)</td>
<td>China Internet Plus Holding Ltd</td>
<td>China</td>
<td>$3,300</td>
<td>Tencent, DST Global, TBP Capital, Canada Pension Plan, Baillie Gifford, CDB Kai Yuan Capital, Capital Today,</td>
</tr>
<tr>
<td>Temasek Holdings Pte Ltd</td>
<td>China Internet Plus Holding Ltd</td>
<td>China</td>
<td>$3,300</td>
<td>Tencent, DST Global, TBP Capital, Canada Pension Plan, Baillie Gifford, CDB Kai Yuan Capital, Capital Today,</td>
</tr>
<tr>
<td>Public Investment Fund (PIF)</td>
<td>Noon.Com</td>
<td>UAE</td>
<td>$1,000</td>
<td>Various Middle Eastern Businessmen</td>
</tr>
<tr>
<td>GIC Pte Ltd</td>
<td>Alibaba Group Holding Ltd</td>
<td>China</td>
<td>$500</td>
<td>Temasek</td>
</tr>
<tr>
<td>Temasek Holdings Pte Ltd</td>
<td>Alibaba Group Holding Ltd</td>
<td>China</td>
<td>$500</td>
<td>GIC</td>
</tr>
<tr>
<td>Khazanah Nasional Bhd</td>
<td>Garena Interactive Holding</td>
<td>Singapore</td>
<td>$170</td>
<td>None</td>
</tr>
</tbody>
</table>
The Retreat from Safe Assets
SWF investments in safe assets*, 2007-2016

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

- A significant drop in investments in safe assets, down to **29.6%** of overall investment
- Infrastructure investment cut in half, down to **$2.6bn**
- High valuations and sensitivity to political and macroeconomic volatility are the driving factors behind SWFs declining interest in this sector
In 2016, with only **$7.2bn** Europe recorded its worst year for SWF investment in the last decade due to sluggish growth, NPLs, and political instability.

- North-America climbs to the top for the first time in history with **$14.9bn**.
- Asia-Pacific records a 2% increase to reach **$14.3bn**, 37% of total investment.
• Brexit took its toll: UK lost $8.8bn since Cameron’s referendum announcement

• The UK, however, still accounts for 39% of investment value in Europe, witnessing the lost appeal in the Eurozone as a target, with the exception of France

• Italy missing: only 3 deals and $151ml reported deal value (Palazzo Turati, Moncler, F2i Healthcare)
America First
SWF investments by target country in 2015 and 2016

- US a «safe» haven amid global chaos: top country with 37% of investment value, 90% increase over the previous year
- Singapore climbs to the second place thanks to domestic investments by GIC and Temasek, while France gains ground thanks to RE deals in Paris
Investments within Asia account for 45% of the region, with Singaporean and Chinese funds the most active at home.
The Shrinking MENA
Investment Flows from Middle East & North Africa SWFs, 2016

- SWF investments originating from MENA countries shrunk to $12.5bn, a 46% decline relative to 2015
- In 2016, in spite of a tight budget constraint, SWF supported domestic economies, doubling total spending in the region
Co-investments Galore
Value of SWF co-investments, 2008-2016, and distribution by type

- Co-investments continue apace: in 2016 they account for 53% 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)
- The push towards alternative assets is the main force behind SWFs wish to partner up with veteran investors in these fields
Hunting Unicorns

Amid global chaos and oil price aftershocks,

• SWF equity investments reached a historic low
• SWF Resilience: AUM increased thanks to internal growth and new funds seeking resource diversification
• The IT challenge: will the big bet pay off?

Stay tuned…
Thank you