The Great Reallocation
HIGHLIGHTS OF THE SWF ANNUAL REPORT 2013

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Florence, Sovereign Investment Workshop, June 27, 2014
Global Trends in 2013
The Deceleration of Growth in Emerging Countries

3. Emerging and Developing Asia
- Emerging and developing Asia
- China
- India

4. Latin America and the Caribbean
- Latin America and the Caribbean
- Brazil
- Mexico

Source: IMF staff estimates.
Global Trends in 2013
The Deceleration of Growth in Emerging Countries

David Parkins
Global Trends in 2013
The Energy Revolution

1. IMF Commodity Price Indices
   (2005 = 100)

- Food
- Energy
- Metal

- Europe Brent Spot Price FOB (Dollars per Barrel)
Global Trends in 2013
The Slowdown of Foreign Exchange Reserves Growth

- World FX reserves are worth $12.1\, \text{trn}$, of which $8\, \text{trn}$ of EM and developing economies
- FX reserves average annual rate of growth:
  - 2001-2007: 19%
  - 2008-2013: 10%

Source: IMF, International Financial Statistics
How Big are SWFs?
AUM by Region and Source of Funds, 2013

- 33 SWFs meeting the SIL definition
- Total AUM: US$ 4,166.33bn
- Oil&Gas AUM: US$ 2,751.91bn

Source: Sovereign Investment Lab, Università Bocconi
SWF Activity Slowing Down
Direct SWF Investments since 2000

- 175 deals worth $50.1 bn in 2013
- 35% decrease in number of deals and 15% decrease in value since 2012
- Consolidation of a downward trend started in 2011
The Great Reallocation: Sectors
Value of Direct SWF Investments by Target Sector, 2006 - 2013

- The decline in financial sector investment continues in favor of real estate and hotels and tourism facilities
- Better diversification, also a sign of recovery in the banking sector
The Rise of Safe Assets
SWF Investments in RE, hotels, infrastructure and utilities, 2007-2013

- Steady increase in the share of “safe harbor” investments since the financial crisis
- Drivers: cheap prices, inflation proof assets, long-term earnings certainty
- Boom in RE and hotels: 38 deals worth $16bn (no development projects though)
- Infrastructure and utilities rewakening with $4bn primarily in Australia
The Great Reallocation: Regions
Value of Direct SWF Investments by Target Region, 2006 - 2013

- Steady increase of equity investment to mature markets of OECD economies, the highest share since 2008 (65%)
- Contraction in South-South (within MENA, Africa, Asia-Pacific, LATAM) investment: 16 % total cross-border value in 2013 (26 % in 2012)
- Europe the target region of choice: 33 deals, $18.4bn
- North America and Non-Pacific Asia up, LATAM and Pacific Asia down
The West and the Rest
Direct SWF Investments by Target Country in 2012 and 2013

- USA spectacularly attractive: QIA in BofA and large deals in RE by GPFG and GIC
- BRICs rebalancing: China, the biggest loser: down from $4.6bn to $620ml in favour of Russia thanks to VTB’s joint bid by GPFG, SOFAZ, and QH and CIC’s acquisition of Uralkali (potash). Brazil under the radar screen
• Macroeconomic stabilization caused **rebalancing in favour of the Eurozone**
• France surpassing the UK (first time in SWF history) by deal value with $7.7bn
• Sizable deals in Spain: Temasek becomes 4° largest shareholder in Repsol; GPFG in railroad contructions
• Italy in line with 2012, still underweighted
• Safe assets reallocation confirmed: **55 %** of deal value in RE, infrastructure and utilities
In 2012, 46% of deal value involved co-investments among SWF (notably QIA, CIC, and GIC in Xstrata and Total). In 2013, cooperation took mainly the form of JVs between sovereign and private like-minded investors (GPFG and Boston Properties and TIAA-CREF in RE, IFM and ADIA in NWS Ports, Temasek and PE investors in Astrea II, etc.).
The Top Ten SWFs by Deal Value
Value of Direct Investments by Top Spending SWFs, 2013

- Changeover power in Qatar meant continuity: in 2013, **QIA is again top spender** and increased its total share to 30%
- Singaporean extremely active investors: Temasek and GIC lead ranking by deals with equity investments worth **$13.7bn**
- News from downunder: Australian Future Fund and New Zealand Superannuation Fund enter the top ten
2013 marked possibly a turning point in SWF investment strategy:

• Growth deceleration in EM slowed down investment with implications across geographies and sectors
• EM do no longer make up for weakness in rich countries
• Safe assets in developed countries the obvious choice

Stay tuned...
Thank you