## Table of Contents

**Reuters** (syndicated to *Arab Finance, Euronews*) ..... 1
Sovereign wealth funds face tougher dealmaking as protectionism grows ..... 1
**Financial News** ..... 2
Sovereign wealth funds pull back from private deals ..... 2
**Private Equity News** ..... 3
Sovereign-Wealth Funds Boost Tech Direct Investments ..... 3
**IPE Real Assets** ..... 4
Sovereign funds pull back from private markets as unlisted deals dwindle ..... 5
**Institutional Asset Manager** ..... 6
Sovereign Wealth Funds pull back from private markets in return to listed equities ..... 6
**Gulf News** ..... 7
Private equity falls out of favour with Sovereign wealth funds ..... 7

**Reuters** *(syndicated to Arab Finance, Euronews)*
**16 July 2018**

**Sovereign wealth funds face tougher dealmaking as protectionism grows**
Claire Milhench

Sovereign investors are facing a tougher environment for dealmaking as rising protectionism threatens to curb inward investment and stunt trade, suggesting private market activity may have plateaued, a co-author of a report out on Monday said.

In recent years sovereign wealth funds (SWFs) have ramped up their exposure to real assets, snapping up iconic skyscrapers in London and Manhattan, luxury hotels and multi-year concessions for Australian ports.

The aim was to tap the illiquidity premium" on offer for investors able to tie up capital for longer as an alternative to low-yielding government bonds.

But Bernardo Bortolotti, director of the sovereign investment lab at Bocconi University and co-author of a report showing a slowdown in SWF real estate and infrastructure investment in 2017, said the high watermark for private dealmaking had passed.

This is partly because some Middle East funds have rebalanced their portfolios towards more liquid assets such as equities to accommodate drawdowns from cash-strapped governments needing to plug budget gaps.

But it's also because the United States is locked in an increasingly bitter dispute with its key trading partners, potentially reducing trade and global economic growth.

Bortolotti warned that if exports fell, SWF growth rates and activity would also slow: They still have $6 trillion-plus to deploy but we have a structural break in the accumulation of assets," he said.

We are at a turning point … Unless Asia can create an area of regional free trade to replace the intercontinental flows then the same issues that are emerging now in the Gulf could also emerge in Asia."

In July, Singapore's GIC, a big sovereign investor in real assets, said it expected lower long-term returns in an uncertain investment climate. This echoed comments from peer Temasek which is looking to temper the pace of its investments as trade tensions ratchet up. China's CIC also expressed concerns.

According to the SWF investment activity report produced in association with the International Forum of SWFs (IFSWF), the number of property deals fell to 42 in 2017 from 77 a year earlier while infrastructure investments fell to 28 from 33.

Combined deal value fell to $23.2bn in 2017 from $25bn.

SWFs are finding it more difficult to find suitable properties in the commercial and office space – traditionally favoured targets – as more investors have entered the market, driving up prices.

There’s more competition from Chinese insurers and large Asian institutions looking at core real estate in London and New York,” said Victoria Barbary, IFSWF director of strategy and communications.

Growing protectionism is also likely to stymie foreign direct investment in strategic sectors, Bortolotti said.

Investing in US infrastructure will be very difficult now from a political standpoint – any kind of investment from China will be more carefully scrutinised, and that is spilling over into Europe.”

The US wants to beef up the powers of its Committee on Foreign Investment in the United States (CFIUS) to review transactions for national security risks.

As a result, SWFs are turning to Asia and Latin America, often investing through tie-ups with government entities to mitigate risk. In 2017, they completed 17 direct investments in emerging market infrastructure, worth $3.8bn, versus 11 deals in developed markets, worth $4.2bn.

Working with a local partner, which may be a sovereign fund or strategic fund, makes these investments a lot more attractive,” said Barbary.

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**Financial News**
**16 July 2018**

**Sovereign wealth funds pull back from private deals**
Mark Cobley

*The world's largest and most sophisticated investors may have spied that real estate and infrastructure are looking pricey*

Sovereign wealth funds’ stampede into off-market investments like real estate and infrastructure slowed dramatically in 2017, according one of the most comprehensive surveys of their investments conducted so far.

The report, which looked at activity among 61 of the state-owned investors, including the global giants like the Abu Dhabi Investment Authority and the China Investment Corporation, found a sharp drop in the number of real estate and infrastructure deals, from exactly 100 in 2016 down to 70 in 2017. The value declined from $25bn to $23bn.

The International Forum of Sovereign Wealth Funds, which conducted the research, said its findings reversed the “well-documented trend in recent years” of state-owned investors using their scale and resources to pump money into off-market opportunities.

“This observation could be a one-year aberration,” the federation cautioned, “or a signal that investments in unlisted markets have plateaued after years of steady growth”.

Among the wider investor community, interest in private market deals remains high, and fund managers are on the road seeking record sums from investors, according to data provider Preqin. As of April 2018, 181 infrastructure funds were looking to raise $137bn worldwide; as of January, 573 real estate funds were looking to raise $191bn.

But as money pours in, dealmakers are bidding assets up to levels that are worrying investors, Preqin said. The data provider's most recent market surveys found two-thirds of real estate investors, and 60% of infrastructure investors, reporting valuations as their top concern — but most were still planning to carry on investing.

In contrast, sovereign funds decreased their dealmaking in commercial and office property last year, as well as luxury hotels — a mainstay of their portfolios, IFSWF found.

In infrastructure, meanwhile, as well as hot competition from pension funds seeking safe, bond-like investments, some sovereign funds have also encountered resistance from regulators worried about foreign governments owning chunks of their strategic national assets.

IFSWF said that as a result, some sovereign funds are turning to infrastructure investments in emerging markets, particularly in Asia and Latin America, with 17 such deals completed during 2017. The forum's researchers noted: "Although this is not a new trend, it has intensified over the last year.

"While it might, on the face of it, appear to be a higher-risk strategy, emerging markets can carry lower potential political risks as there are fewer concerns about foreign investment in infrastructure, and SWFs can pair with a domestic promoter."

The use of such partnership deals is also on the rise, the forum said: "In 2017, the trend reached a new high as SWFs completed 203 investments in a consortium or partnership, over double the number of solo deals."

The forum said national governments are actively encouraging such deals to attract foreign investment, singling out the $10bn Russian Direct Investment Fund as a pioneer. In October last year, it teamed up with Bahrain's Mubadala Investment Company and Saudia Arabia's Public Investment Fund to finance the construction of transport infrastructure assets across Russia.

Some developed markets have also followed the model, such as France and Italy. On July 10, China's $941bn sovereign wealth fund said it too plans to create more tie-ups and international partnership deals in the coming years.

Correction: This story was updated at 10:01am GMT on Monday 16 July to correct the name of the International Forum of Sovereign Wealth Funds.

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**Private Equity News**
**16 July 2018**

**Sovereign-Wealth Funds Boost Tech Direct Investments**
Ed Ballard

*Increased investment in disruptive businesses came as real-estate and infrastructure deals declined, according to a new report*

Sovereign-wealth funds stepped up their investments in technology companies last year as they grew pickier about how to invest in private markets, a new report found.

The number of direct investments by sovereign-wealth funds in the technology and telecoms sector rose to 28 last year from 15 in 2016, according to a report by the International Forum of Sovereign Wealth Funds and the Sovereign Investment Lab at Bocconi University in Milan. The combined value of sovereign-wealth funds' equity investments in the tech sector rose from $1.4 billion to $1.89 billion over the same period.

In another indication of state-backed investors' growing preference for early-stage investments in innovative companies, sovereign-wealth funds invested alongside venture firms in 15% of their direct investments last year. This was up from 9% in 2015, the report found.

"Sovereign-wealth funds have embraced disruptive technology investment from artificial intelligence to new materials," the report said, adding that such investors are seeking to back businesses "at earlier stages of the private-equity cycle".

Singaporean state investors Temasek Holding Pte. and GIC Pte Ltd. illustrate the trend. They both led investments in major funding rounds by early-stage companies last year. Temasek led a $502 million investment in U.S. augmented-reality startup Magic Leap Inc., while Chinese online-lending platform Dianrong raised $220 million from investors led by GIC. The two funds also both participated in a $14 billion fundraise by China's Ant Financial Services Group last month.

"These higher risk, and sometimes longer term, investments are one way for us to seed new solutions and capabilities, and deliver higher returns in aggregate over the longer term," Temasek said in its annual review this month.

Sovereign-wealth funds' enthusiasm for disruptive businesses stands contrasts with a more muted picture for direct investments in general as the number of real-estate and infrastructure deals both declined.

"In recent years, there has been a well-documented trend for sovereign-wealth funds to take advantage of their scale, long investment horizon and little need for liquidity to dedicate increasing amounts of money into private markets, particularly real estate and infrastructure," said the report by the International Forum of Sovereign Wealth Funds and Bocconi. "In 2017, we identified a reversal of this trend."

Sovereign funds made 35 direct investments in real estate and struck 13 infrastructure deals, down from 60 and 25 respectively in 2016. Measured by total investment, activity declined more modestly as investors targeted larger assets. Real-estate investment fell from $15.2 billion to $14 billion while infrastructure investment declined from $6.77 billion to $6 billion.

Possible factors behind the reduction include ever-greater competition for real-estate assets and regulatory push-back against the sale of important infrastructure assets to other countries, the report said. In addition, it said the slowdown may be a sign that sovereign-wealth funds are reaching their target allocations for private-markets exposure.

Conversely, sovereign funds showed renewed enthusiasm for the stock market last year. Some 39% of last year's deals were purchases of publicly listed shares, up from 32% in 2016.

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**IPE Real Assets**
**16 July 2018**

**Sovereign funds pull back from private markets as unlisted deals dwindle**

Sovereign wealth funds (SWFs) appear to be pulling away from private markets, after the number of unlisted real estate and infrastructure deals fell last year, according to a new report.

Using a three-year database of investments by more than 60 SWFs, the International Forum of Sovereign Wealth Funds (IFSWF) and Bocconi University found that the number of private deals dropped from 196 in 2016 to 184 in 2017, while the number of listed investments rose from 94 to 119.

IFSWF, which was created in 2009 to promote transparency among SWFs, said the slowdown in private-market activity was partly explained by competition in real estate and infrastructure markets.

“This is particularly the case in the private property sector, which saw a 40% decrease in the total invested by SWFs between 2016 and 2017,” the organisation said.

EPRA Conference 2018

“Greater regulatory challenges, and increased opportunities in listed markets, were also identified as driving flows away from private markets.”

The report said: “A lower volume of real estate deals in 2017 looks to be the main reason for the slowdown in allocation to private markets, as this sector has been favoured by sovereign wealth funds for some years.”

In 2017, the number of direct real estate and infrastructure investments made by SWFs was down from $25bn in 2016 to $23.2bn.

In the property sector, there was an almost 40% decrease in the number of SWF investments in private markets between 2016 and 2017.

“SWFs are finding it more difficult to buy properties; more institutional investors have recently entered the sector, increasing competition for high-quality assets and pushing asset valuations higher,” the report said.

The report also highlighted that SWFs are also increasingly collaborating with other investors, including their peers and private equity firms on investments, enabling them to harness external expertise across sectors.

Bernardo Bortolotti, a director of the Sovereign Investment Lab at Bocconi University, said: “The global investment backdrop means the findings outlined in this report are likely to develop further over the short-to-medium term.

“In particular, we expect to see continued partnerships with third-party investors as a more controlled way for funds to get exposure to earlier-stage equities.

“But over the longer term, SWFs will have to deal with the disruption of an increasingly uncertain macroeconomic environment. Research efforts have to be enhanced to improve understanding and decision making.”

Duncan Bonfield, CEO of IFSWF, said: “This review is a new effort to improve public understanding of sovereign wealth funds.

“As these funds increasingly look to invest directly through their own investment teams, our data is intended to shine a light on their asset allocation trends, and to clarify many of the misconceptions about what these funds are and how they invest.”

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**Institutional Asset Manager**

**16 July 2018**

**Sovereign Wealth Funds pull back from private markets in return to listed equities**

Sovereign wealth funds are increasing their exposure to listed assets as private market deal activity slows, according to research from the International Forum of Sovereign Wealth Funds (IFSWF).

'Dealing with Disruption', the inaugural IFSWF annual review, produced in association with the Sovereign Investment Lab at Bocconi University, found that sovereign wealth funds' (SWFs) appetite for real estate and infrastructure deals slowed in 2017. The number of investments in unlisted assets completed in 2017 fell to 184, from 196 in 2016, while the number of listed investments rose to 119 in 2017, versus 94 in the previous year.

IFSWF data suggests that the slowdown in capital allocation to private markets was partly explained by increased competition across real estate and infrastructure markets. This is particularly the case in the private property sector, which saw a 40 per cent decrease in the total invested by SWFs between 2016 and 2017. Greater regulatory challenges, and increased opportunities in listed markets were also identified as driving flows away from private markets.

The IFSWF annual review uses data from a newly launched IFSWF database on global direct equity investments by sovereign wealth funds going back to January 2015. The report also found that SWFs are increasingly collaborating with other investors, including their peers and private equity firms on investments, enabling them to harness external expertise across sectors.

In addition, SWFs are buying fewer listed consumer goods and services companies, choosing to invest at earlier stages alongside private equity firms; they are increasingly looking to invest in the next big technological breakthrough. There has also been a large uptick in investment in India from SWFs, particularly through IPOs, with the trend set to continue into 2018.

Bernardo Bortolotti (pictured), Director of the Sovereign Investment Lab, says: "The global investment backdrop means the findings outlined in this report are likely to develop further over the short-to-medium term. In particular, we expect to see continued partnerships with third-party investors as a more controlled way for funds to get exposure to earlier-stage equities. But over the longer term, SWF will have to deal with the disruption of an increasingly uncertain macroeconomic environment. Research efforts have to be enhanced to improve understanding and decision making."

Duncan Bonfield, CEO of IFSWF, says: "This review is a new effort to improve public understanding of sovereign wealth funds. As these funds increasingly look to invest directly through their own investment teams, our data is intended to shine a light on their asset allocation trends, and to clarify many of the misconceptions about what these funds are and how they invest."

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**Gulf News**
**16 July 2018**

**Private equity falls out of favour with Sovereign wealth funds**
Babu Das Augustine

*Abraaj case likely to hit fund raising efforts in the region*

Dubai: Sovereign wealth funds (SWFs) are increasing their exposure to listed assets as private market deal activity slows, according to research from the International Forum of Sovereign Wealth Funds (IFSWF).
A recent report on global SWFs by Sovereign Investment Lab at Bocconi University, found that sovereign wealth funds' (SWFs) appetite for real estate and infrastructure deals slowed in 2017. The number of investments in unlisted assets completed in 2017 fell to 184, from 196 in 2016, while the number of listed investments rose to 119 in 2017, versus 94 in the previous year.

While SWF investors are increasingly looking at co-investment strategies with other investors, including their peers and private equity (PE) firms on investments, the traditional PE way of limited partners (LPs) entrusting money with general partners (GPs) is on the wane. In consumer goods and services companies, SWFs are buying fewer listed stocks, choosing to invest at earlier stages alongside PE firms.

"We expect to see continued partnerships with third-party investors as a more controlled way for funds to get exposure to earlier-stage equities. But over the longer term, SWFs will have to deal with the disruption of an increasingly uncertain macroeconomic environment," said Bernardo Bortolotti, Director of the Sovereign Investment Lab.

Data from Sovereign Investment Lab also shows in 2017, SWFs completed more direct equity investments than they did in 2016 (303 versus 290), but that the value of these has largely stayed flat: $52.6 billion (Dh193 billion), compared to 2016's $51.4 billion.

Increasingly, SWF's investment strategies show their preference to listed equities. According to Invesco's recent Global Sovereign Asset Management Study, nearly half of sovereign investors are now incrementally or materially overweight in equities.

The study showed average allocation to listed equities have increased to 33 per cent this year from 29 per cent in 2017. The increase in equity allocations has been driven by a number of factors, including the equity bull market and higher returns. On average, equity returns were 8.7 per cent among respondents, which significantly supported strong outcomes at portfolio level (9.4 per cent in 2017, up from 4.1 per cent in 2016).

GCC woes

Falling out of favour with SWFs is likely to have serious implications for the region's PE industry plagued by a crisis of confidence triggered by allegations of fund misuse, co-mingling of funds and poor governance standards at Abraaj, the region's largest private equity firm.

The PE industry in the GCC has been on a gradual recovery mode since the global financial crisis. While investment volumes have picked up again after a partial slowdown in 2016, with a total of $3.3 billion (Dh12.1 billion) in 2017, average deal multiples appear to be quite sustained compared to pre financial crisis levels, according to recent data from Boston Consulting Group (BCG).

Going forward, with reduced allocations from SWFs, institutional investors and reluctance banks to lend to the PE firms, region's private equity fund raising is expected to slow down significantly.

Industry insiders say fund raising in private equity is very sensitive to news relating to the industry. “Clearly the Abraaj case is going to have a big impact on limited partners who provide money to general partners. Leverage is also going to become expensive and scarce, ultimately eroding multiples,” said the CEO of a regional private equity firm.