

BOCCONI

Hunting Unicorns

HIGHLIGHTS OF THE SWF ANNUAL REPORT 2016

Bernardo Bortolotti - SIL, Bocconi University

Sovereign Investment Workshop
Sala Mattioli, Gallerie d'Italia
Milan, July 14, 2017

Magnum Chaos

SWFs grappling with global uncertainty

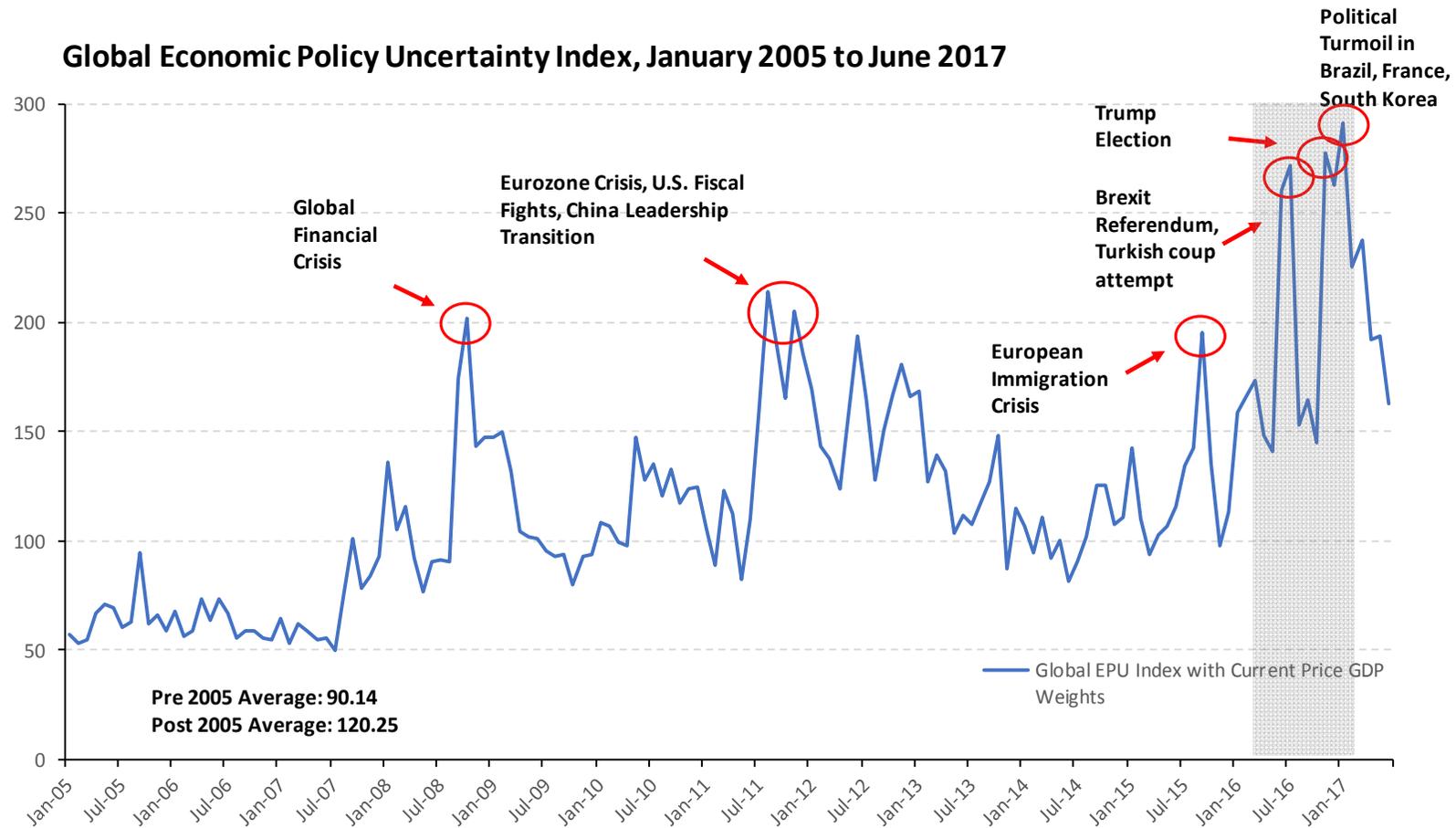


*Lorenzo Lotto, wooden inlays of Santa Maria Maggiore,
Bergamo, 1533*



Magnum Chaos

SWFs grappling with global uncertainty



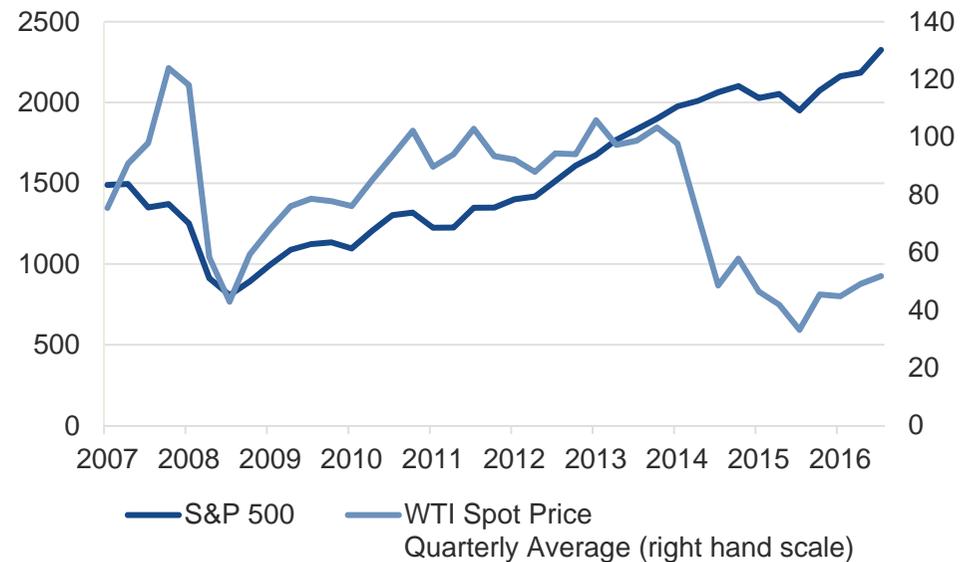
Notes: Global EPU calculated as the GDP-weighted average of monthly EPU index values for US, Canada, Brazil, Chile, UK, Germany, Italy, Spain, France, Netherlands, Russia, India, China, South Korea, Japan, Ireland, Sweden, and Australia, using GDP data from the IMF's World Economic Outlook Database. 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



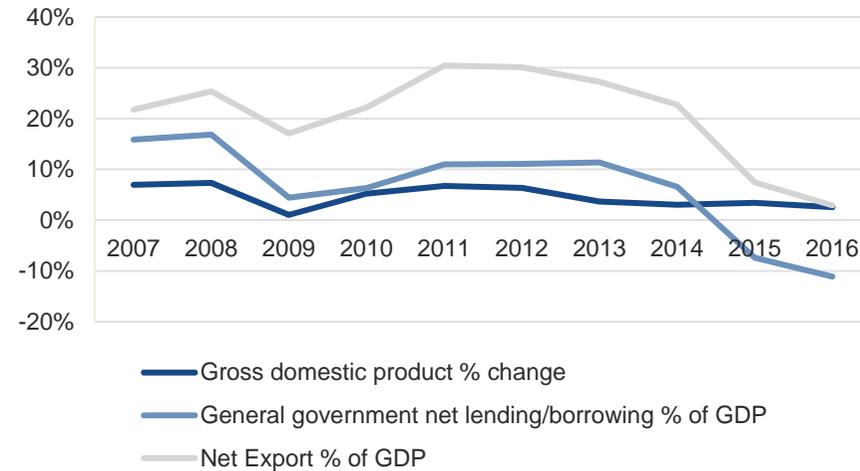
- **11/2016:** OPEC production cut, first since 2008
- Stabilization taking place, but unconventional sources put an upper floor ceiling to future price adjustments
- US climate and foreign policies should avoid market disruption in the near future
- Mid-term price forecast: **\$45-55/barrel**

Austerity in GCC countries

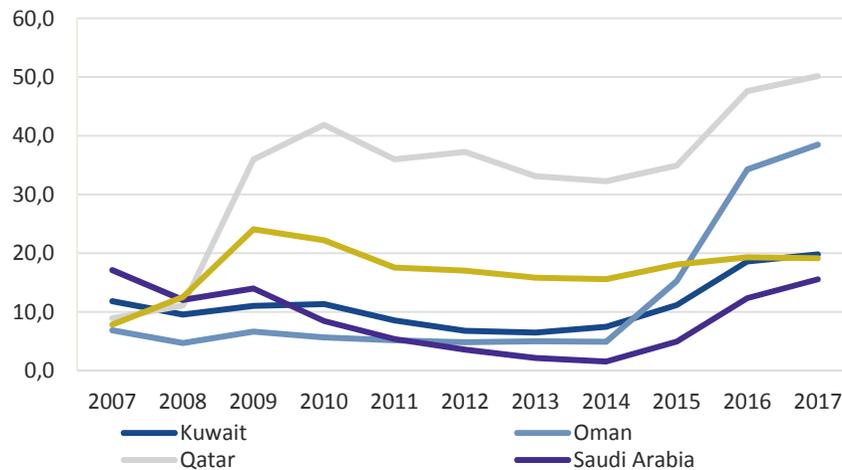
Macroeconomic and fiscal adjustments



Macroeconomic Indicators in GCC countries



Gross debt (% of GDP)



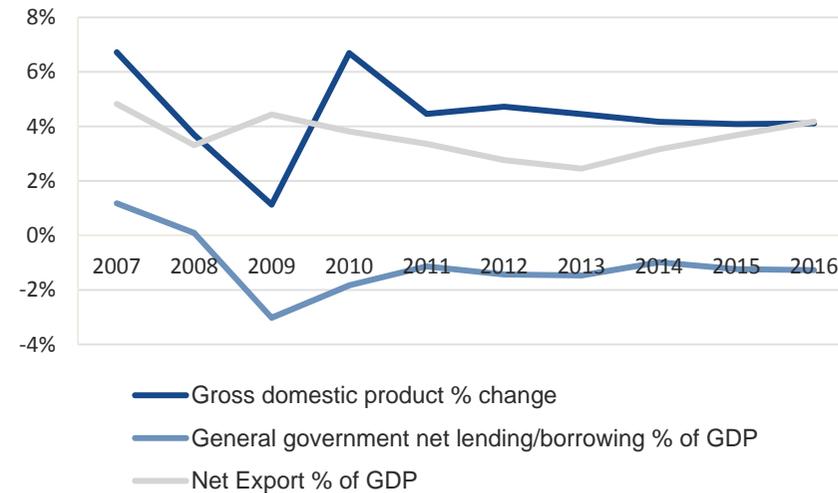
- Fiscal stabilization took the form of subsidized energy cuts (Kuwait, UAE, Oman), reduction in public wage spending and delayed investments (Saudi Arabia), reserve drawdown, and debt issuance (Qatar)
- GDP growth down from historic 4% to **2.5%**

A Silver Lining in Asia?

Global trade picking up after “Great Deceleration”



Asian Economies



- 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



ADIA



INVESTMENT CORPORATION OF DUBAI



TEMASEK HOLDINGS



futurefund
Australia's Sovereign Wealth Fund

KIC



Dubai International Financial Centre

Mumtalakat
INVESTING FOR BAHRAIN

Government of Ras Al Khaimah
RAK Investment Authority



الصندوق العماني للاستثمار
Oman Investment fund

Fundo Soberano de Angola



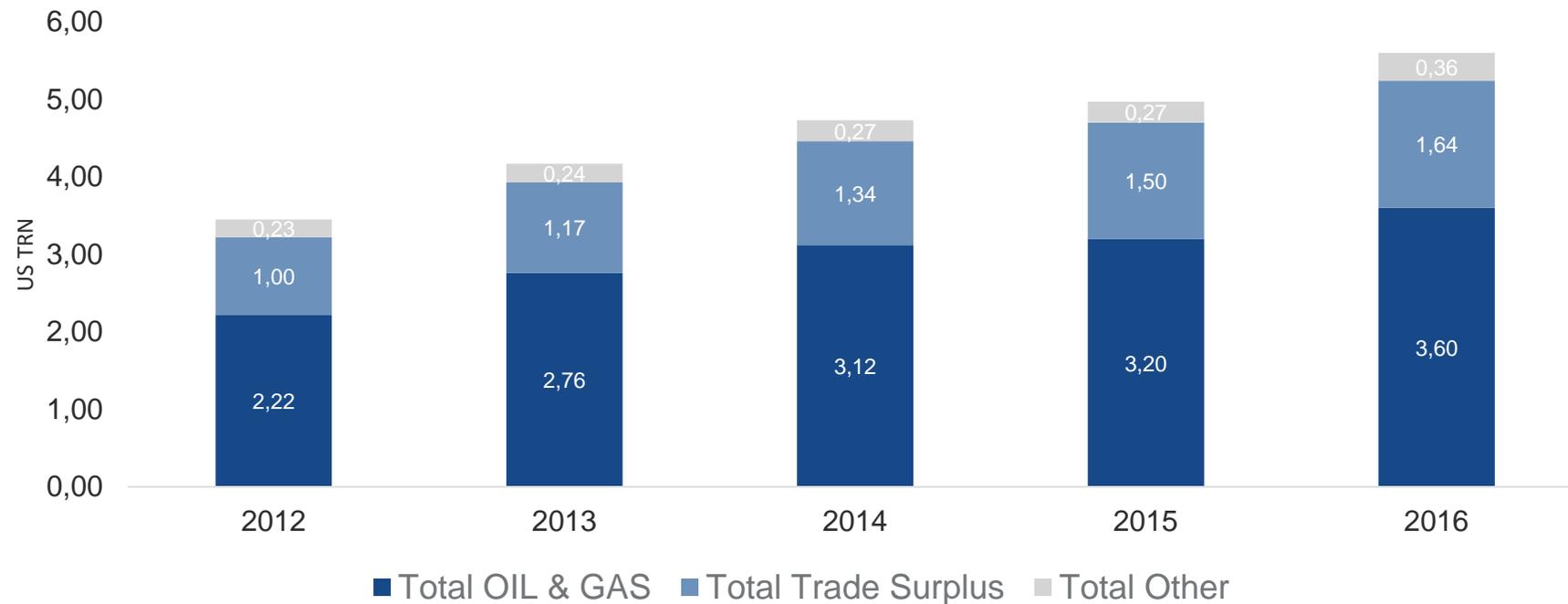
Nigeria Sovereign Investment Authority



ITHMAR CAPITAL

SWF Resilience

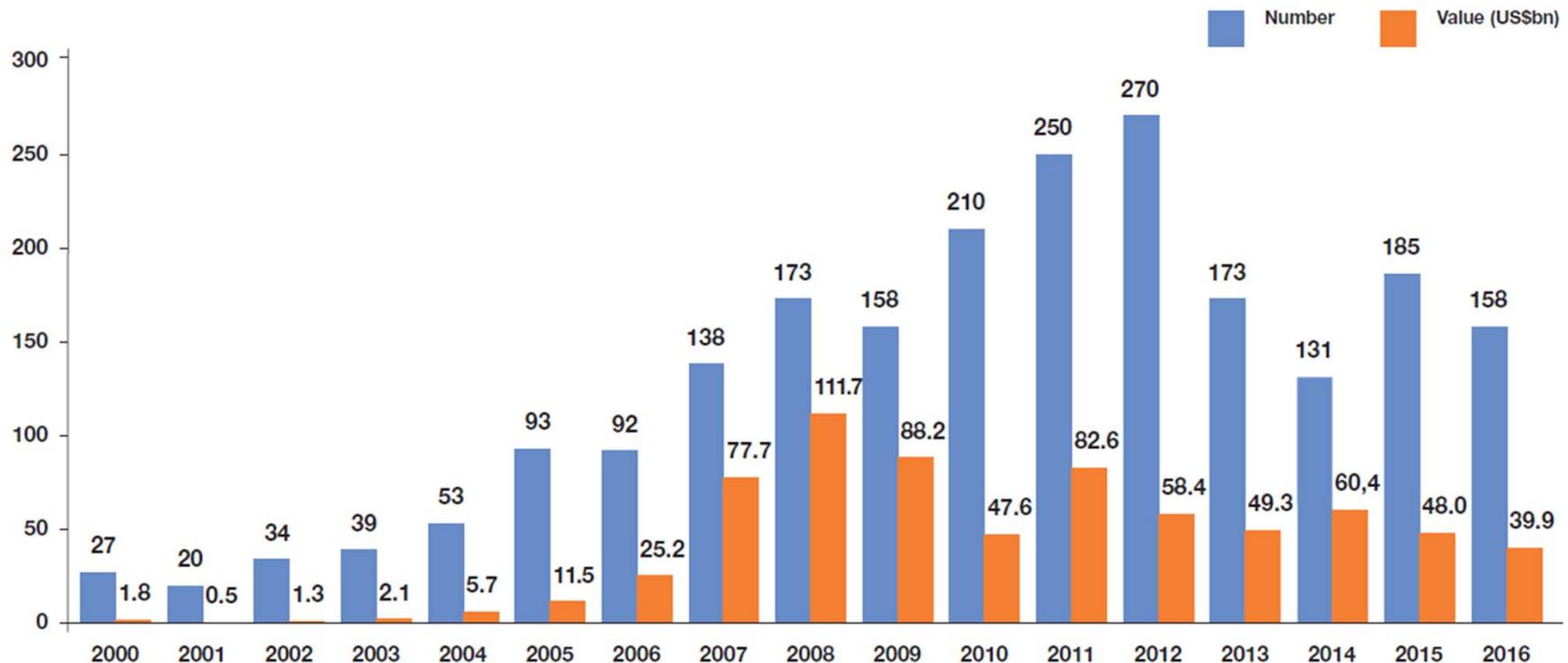
Global SWFs' AUM, 2011-2016



- 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

Investment Value at Historical Lows

SWF direct equity investments since 2000

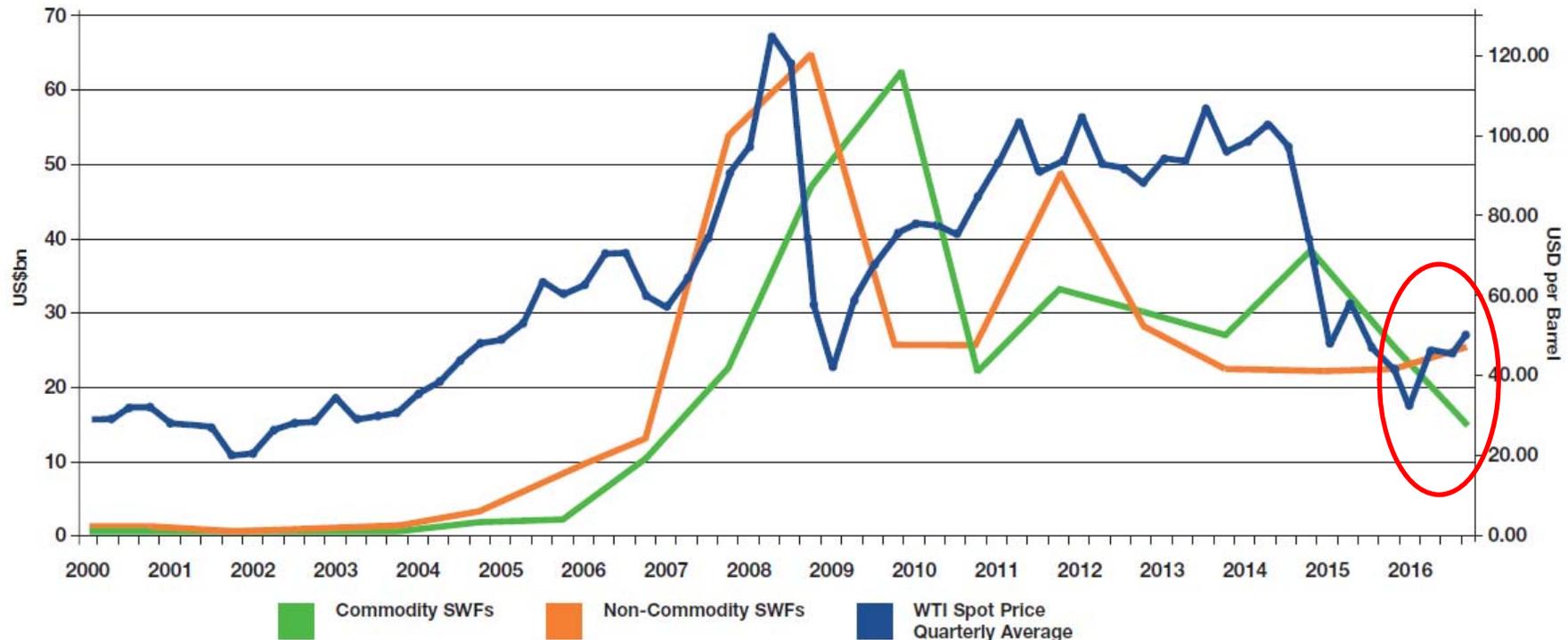


- **158 deals** worth **\$39.9bn** in 2016
- **14%** decrease in the number of transactions and **17%** decrease by value relative to 2015, lowest level since 2006
- Average ticket size drops to **\$252mn** suggesting a more conservative strategy, aimed at better diversification



A Tale of Two SWF Types

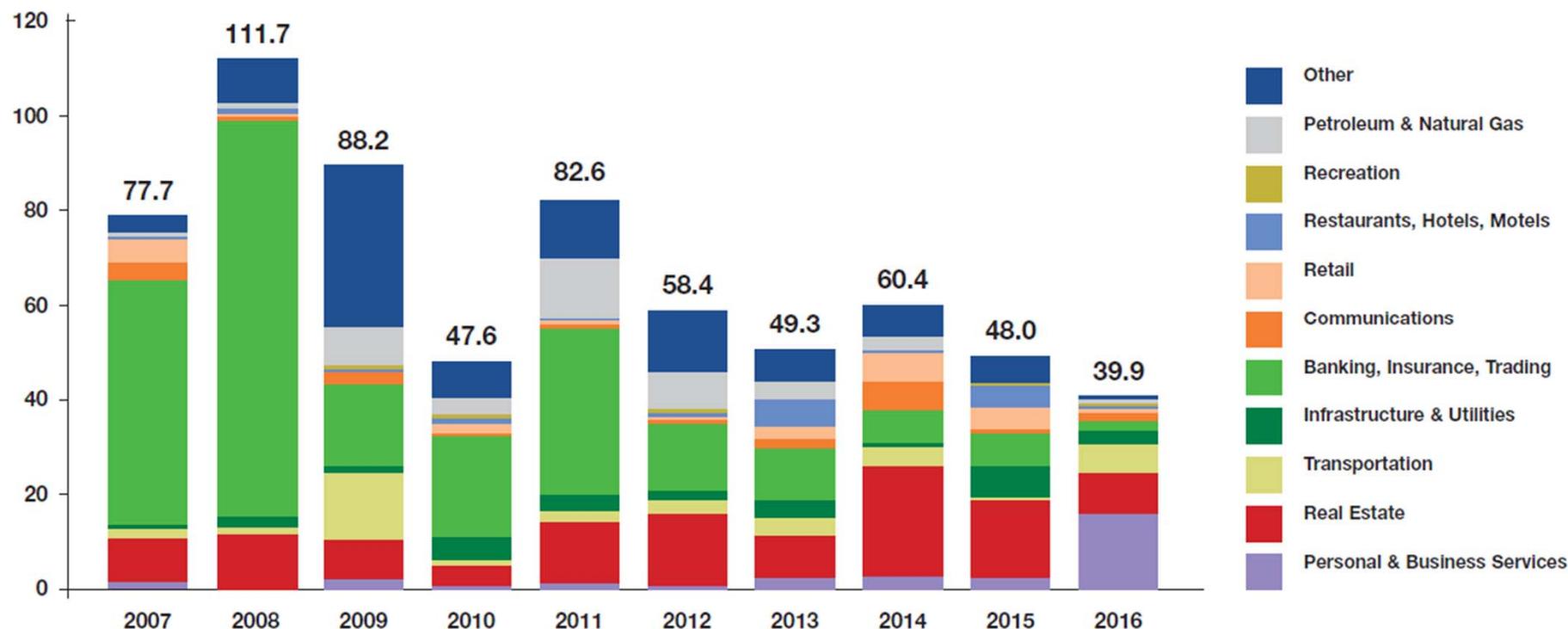
SWF investments by source and the oil price, 2000-2016



- 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

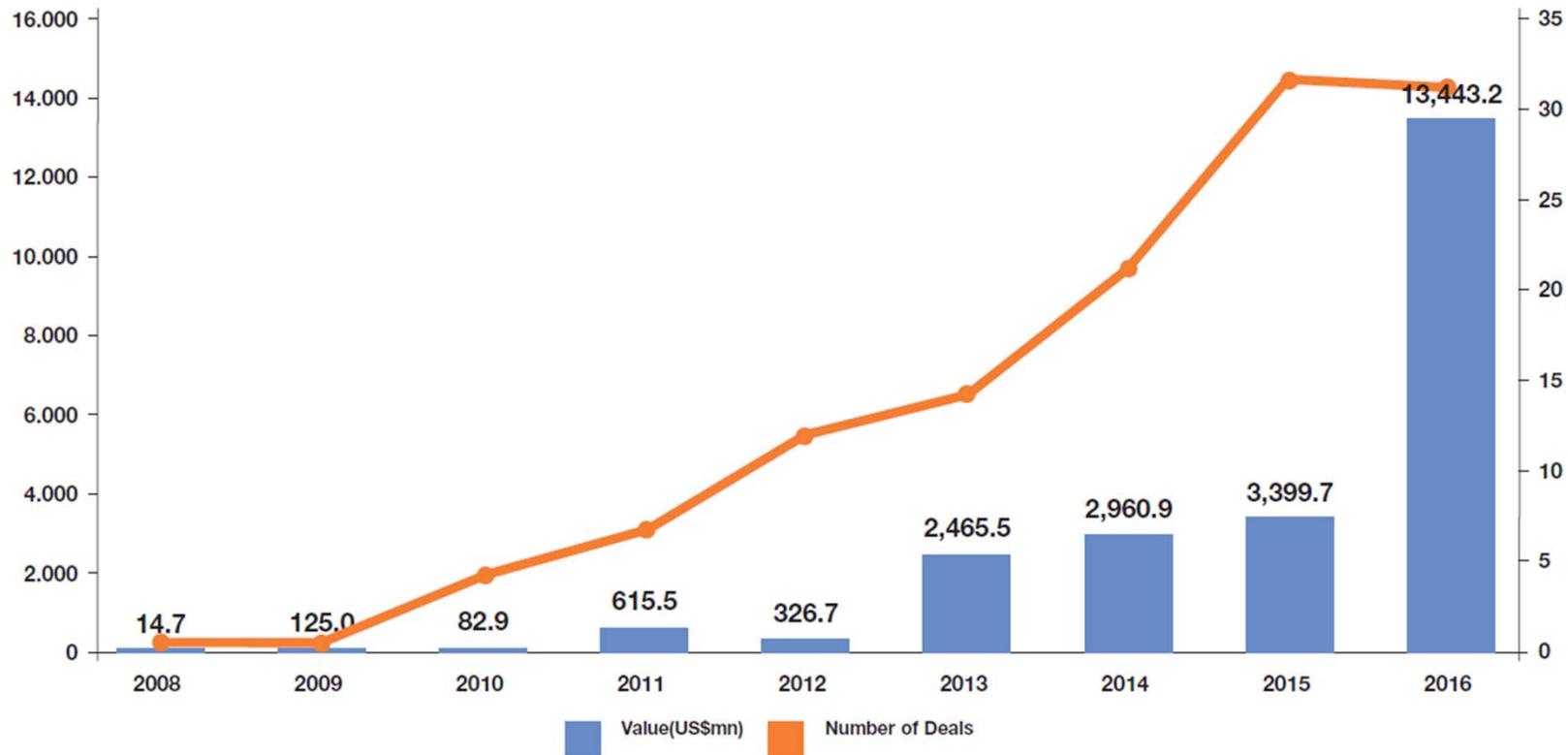
Value of SWF investments by target sector, 2007-2016



- 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

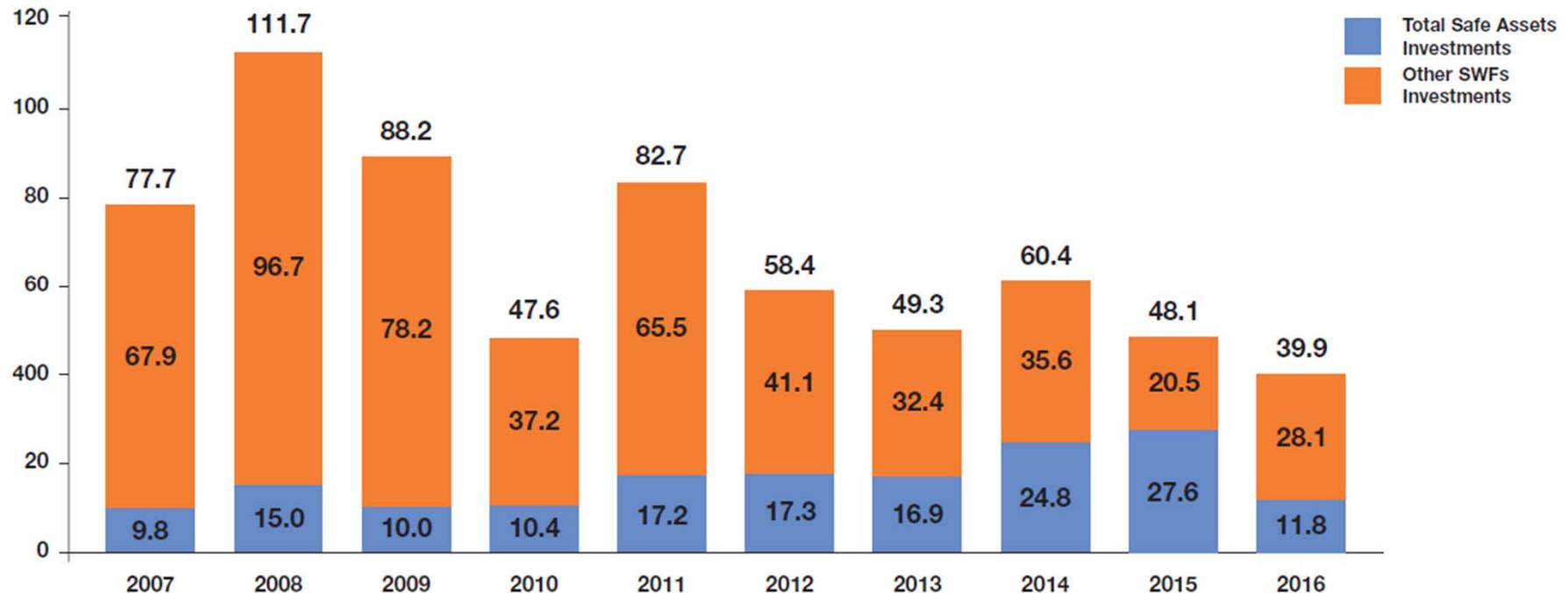
SWF	Target	Country	Deal Size (Value US\$MN)	Partners
GIC Pte Ltd	Multiplan Inc.	USA	\$7,500	Hellman & Friedman LLC Leonard Green & Partners LP
GIC Pte Ltd	Veritas Technologies Corporation	USA	\$7,400	The Carlyle Group
China Investment Corporation (CIC)	Zhejiang Ant Small And Micro Financial Services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



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.

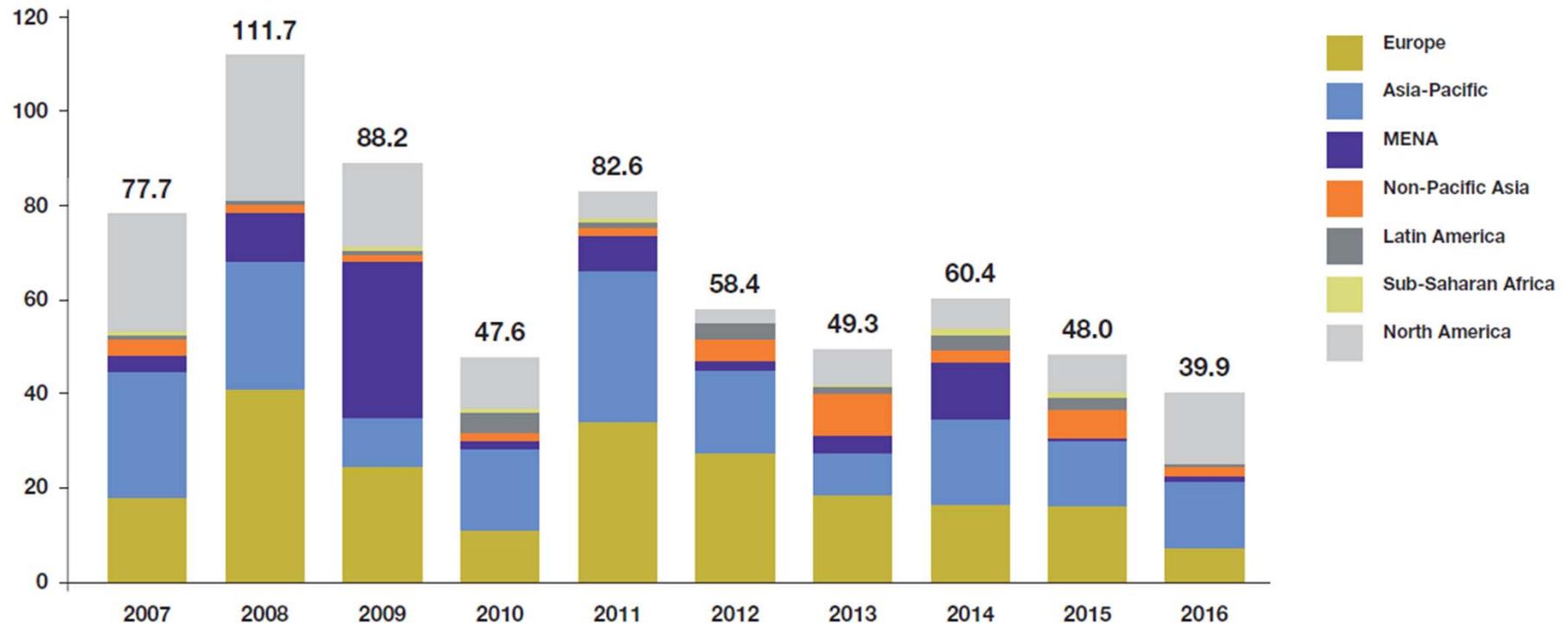


- A significant drop in investments in safe assets, down to **29.6%** of overall investment
- Infrastructure investment cut in half, down to **\$2.6bn**
- High valuations and sensitivity to political and macroeconomic volatility are the driving factors behind SWFs declining interest in this sector



Quo Vadis, Europe?

SWF investments by target region, 2007-2016

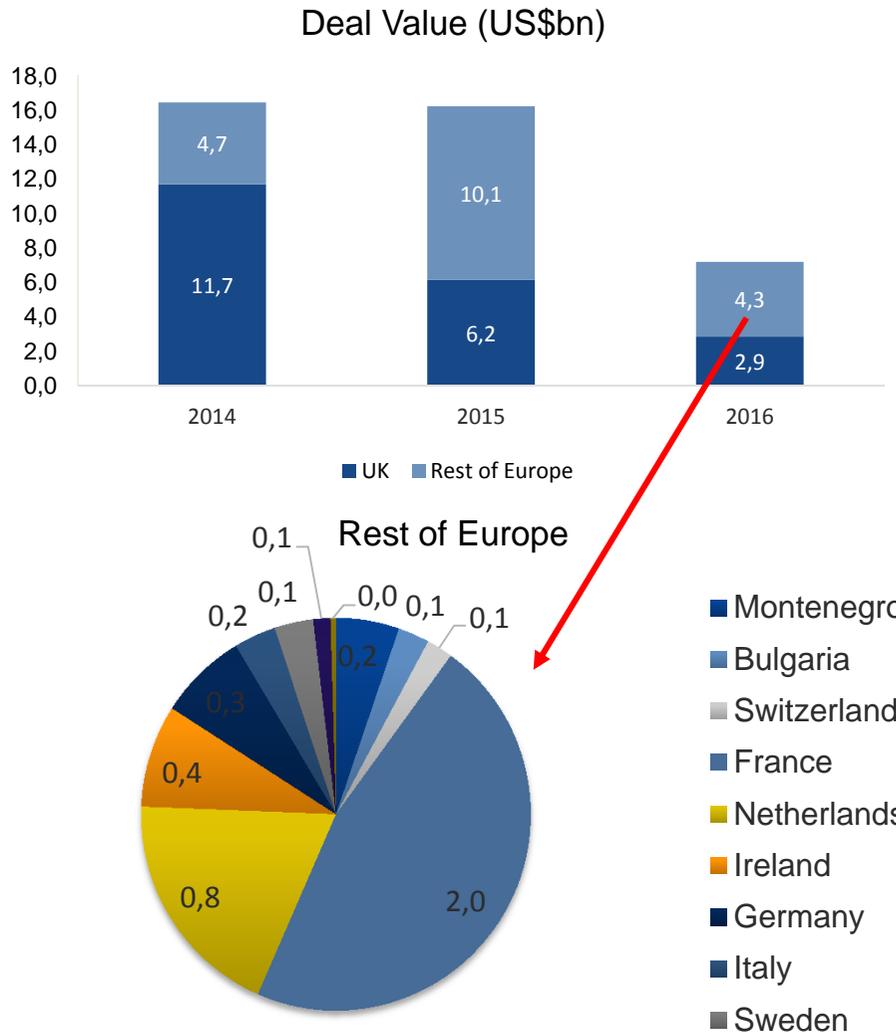


- In 2016, with only **\$7.2bn** Europe recorded its worst year for SWF investment in the last decade due to sluggish growth, NPLs, and political instability
- North-America climbs to the top for the first time in history with **\$14.9bn**
- Asia-Pacific records a 2% increase to reach **\$14.3bn**, 37% of total investment



Brexit and Beyond

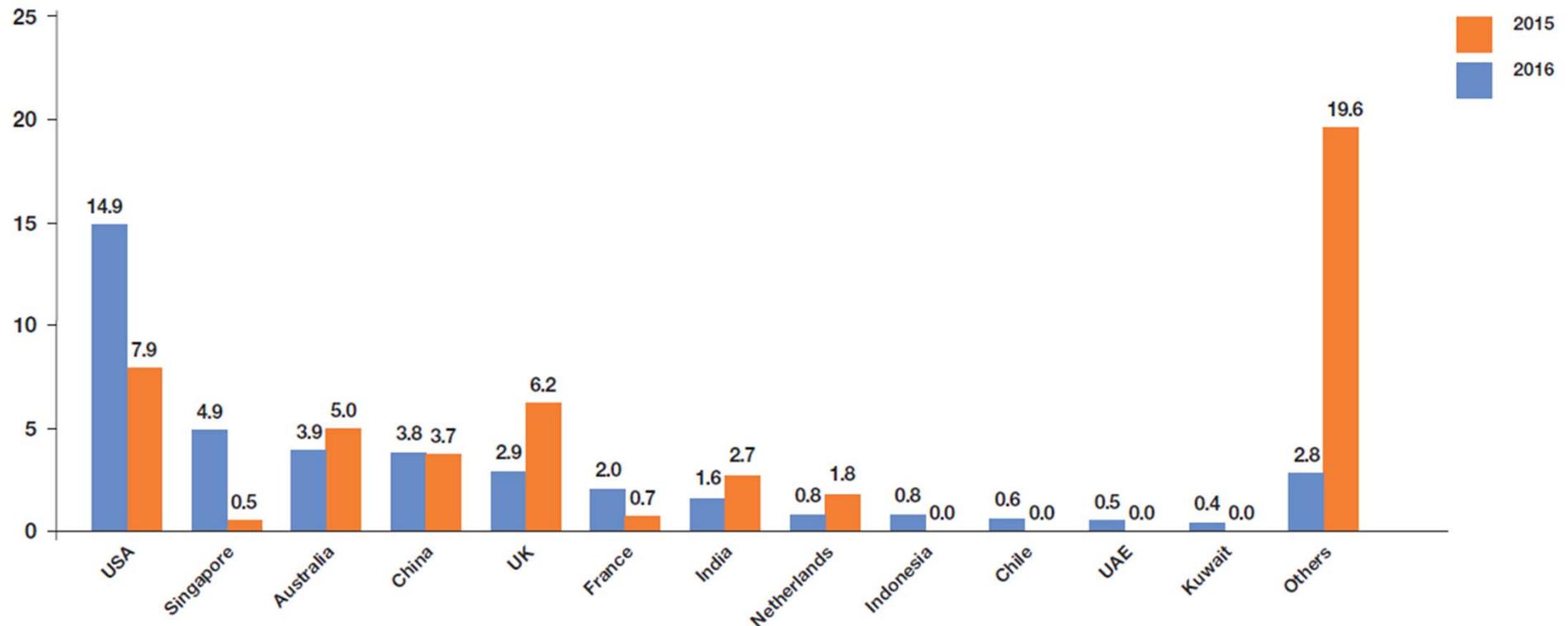
SWF investments in Europe, 2016



- 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

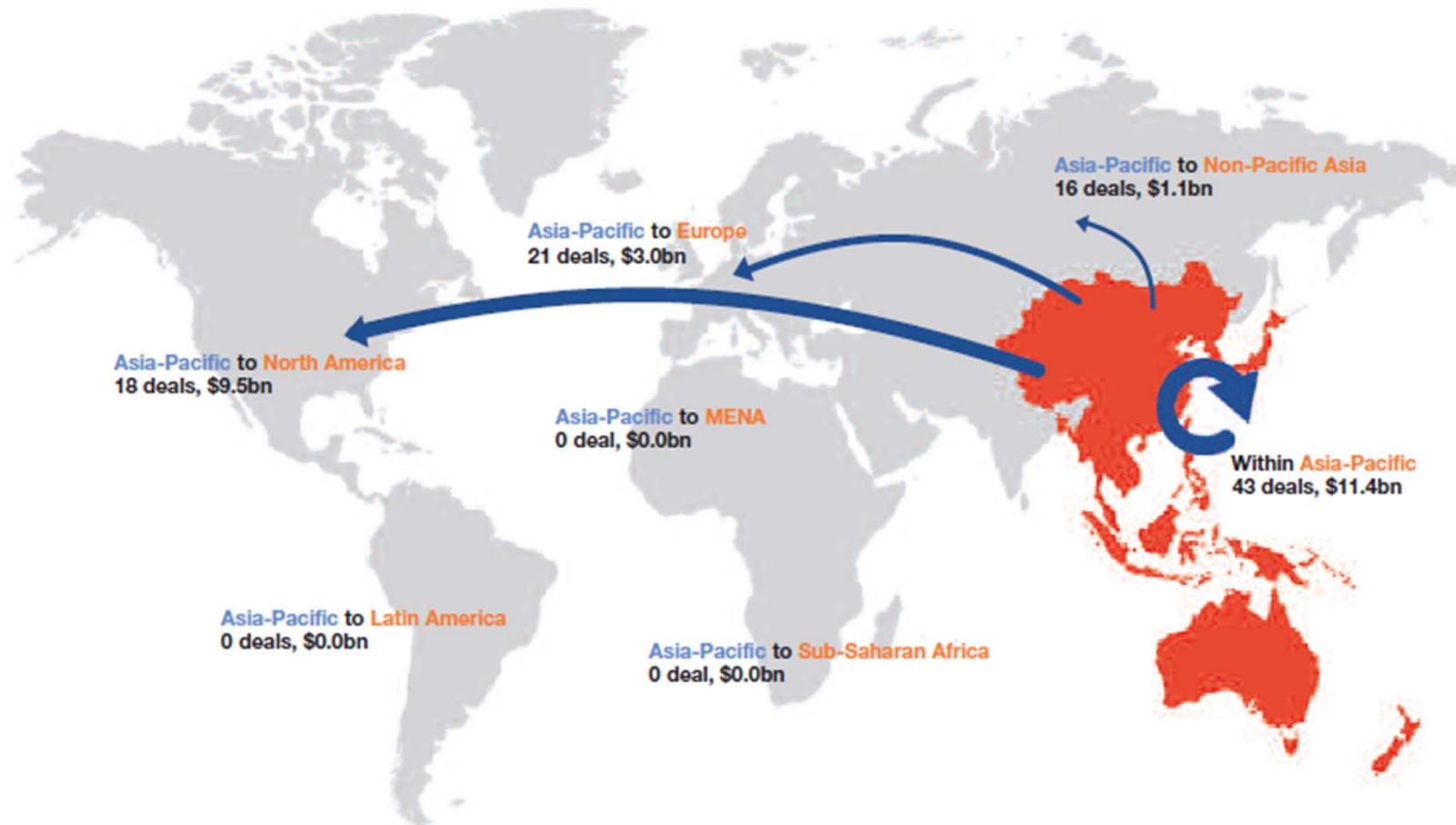


- US a «safe» haven amid global chaos: top country with **37%** of investment value, **90%** increase over the previous year
- Singapore climbs to the second place thanks to domestic investments by GIC and Temasek, while France gains ground thanks to RE deals in Paris



The Asian Regional Bias

Investment Flows from Asia-Pacific SWFs, 2016

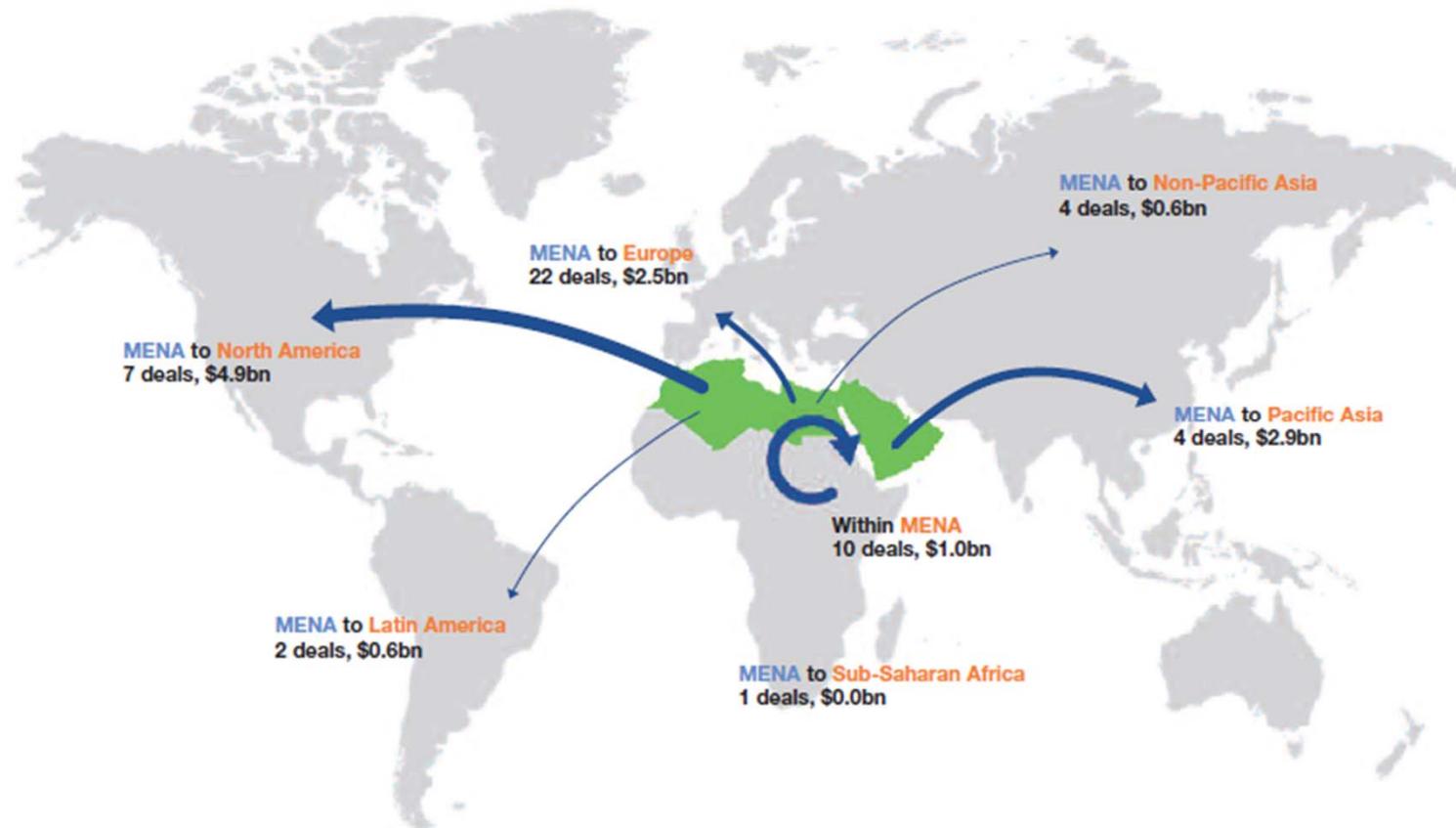


- Investments within Asia account for **45%** of the region, with Singaporean and Chinese funds the most active at home



The Shrinking MENA

Investment Flows from Middle East & North Africa SWFs, 2016

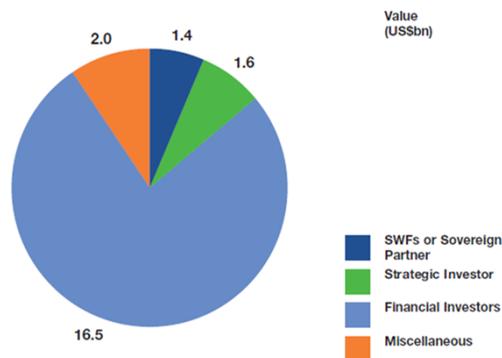
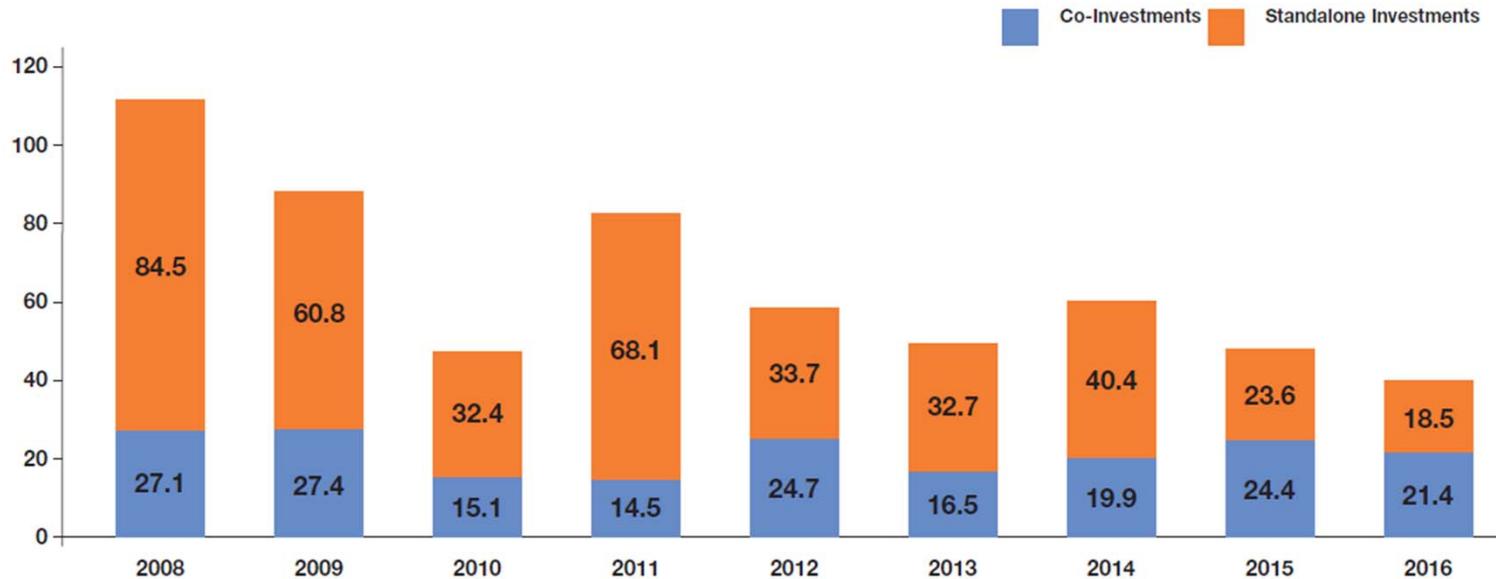


- SWF investments originating from MENA countries shrunk to **\$12.5bn**, a **46%** decline relative to 2015
- In 2016, in spite of a tight budget constraint, SWF supported domestic economies, doubling total spending in the region



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

