

**Bocconi**



Università Commerciale  
Luigi Bocconi

# Cautious Change

**HIGHLIGHTS OF THE SWF ANNUAL REPORT 2012**  
**Bernardo Bortolotti, SIL, Università Bocconi**

Venice, Sovereign Investment Lab Workshop, June 28, 2013

# The sovereign investment landscape

<b>Official Reserves/ Central Bank</b> <ul style="list-style-type: none"> <li>External assets for directly financing international payment imbalances</li> <li>Highly liquid, often OECD government bonds</li> </ul>	<b>Stabilization Funds</b> <ul style="list-style-type: none"> <li>Funds to insulate budget and economy from excess volatility, inflation, Dutch disease, &amp; other macro-economic threats</li> <li>Low-risk, liquid assets: cash government bonds</li> </ul>	<b>Pension Funds</b> <ul style="list-style-type: none"> <li>Investment vehicles to meet government's future pension obligations</li> <li>Funded and denominated in local currency</li> <li>Explicit liabilities</li> </ul>	<b>Sovereign Wealth Funds</b> <ul style="list-style-type: none"> <li>Sovereign owned</li> <li>Independent</li> <li>Limited explicit liabilities</li> <li>Investing for commercial return</li> <li>Significant investment abroad</li> </ul>	<b>Domestic Development Funds</b> <ul style="list-style-type: none"> <li>Owned by national or sub-national governments</li> <li>Focus on domestic investment</li> <li>Private equity style</li> </ul>	<b>State Owned Enterprises</b> <ul style="list-style-type: none"> <li>Companies in which the state has significant control</li> <li>May make investments in foreign assets</li> </ul>
<p><b>EXAMPLES</b></p> <ul style="list-style-type: none"> <li>State Administration of Foreign Exchange (China)</li> <li>Saudi Arabia Monetary Agency</li> </ul>	<ul style="list-style-type: none"> <li>Economic and social Stabilization Fund (Chile)</li> <li>Pula Fund (Botswana)</li> <li>Oil Stabilisation Fund (Iran)</li> </ul>	<ul style="list-style-type: none"> <li>California Public Employees' Retirement System (US)</li> <li>National Pension Service (Korea)</li> </ul>	<ul style="list-style-type: none"> <li>Abu Dhabi investment authority</li> <li>Government of Singapore Investment Corp.</li> <li>Qatar Investment Authority</li> <li>China Investment Corporation</li> </ul>	<ul style="list-style-type: none"> <li>Russian Direct Investment Fund</li> <li>Fondo Strategico Italiano</li> <li>Samruk-Kazynu (Kazakhstan)</li> <li>1Malaysia Development Fund</li> </ul>	<ul style="list-style-type: none"> <li>CNOOC (China)</li> <li>Gazprom (Russia)</li> <li>SABIC (Saudi Arabia)</li> </ul>

INVESTMENT RISK 



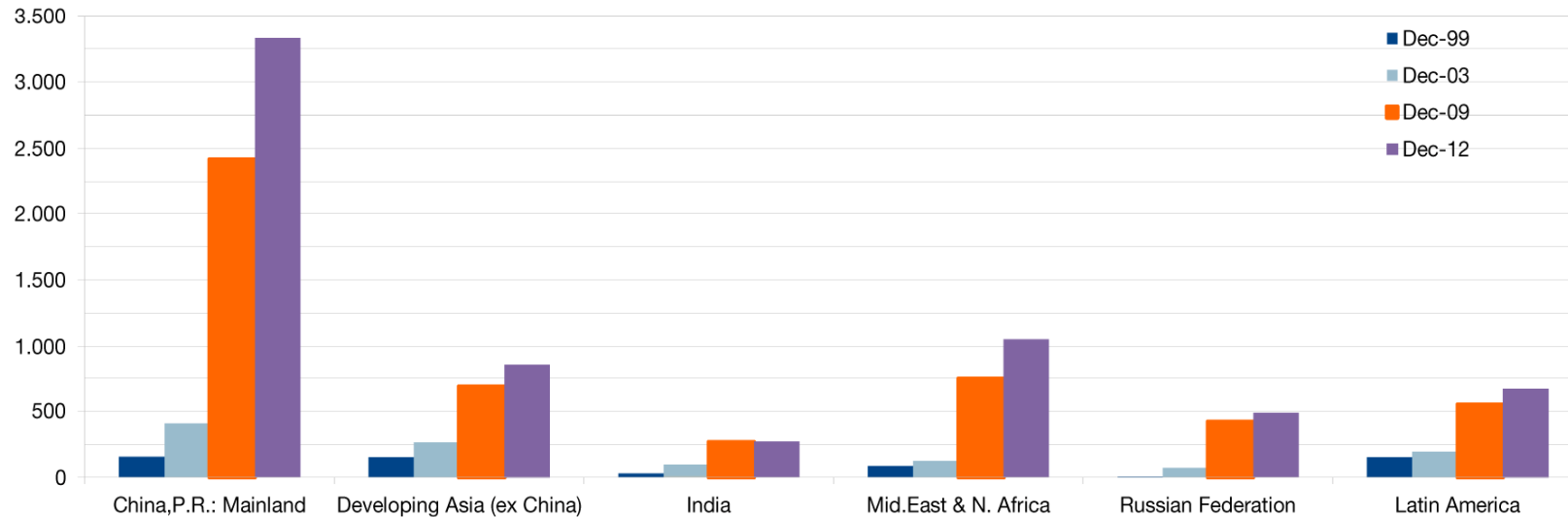
# Sovereign Wealth Funds AUM, 2012

Country	Fund Name	Inception Year	Source of Funds	AUM (US\$bn)
Norway	Government Pension Fund – Global <sup>6</sup>	1990	Commodity (Oil & Gas)	746.30
China	China Investment Corporation <sup>7</sup>	1976	Trade Surplus	482.20
UAE-Abu Dhabi	Abu Dhabi Investment Authority <sup>7</sup>	1990	Commodity (Oil & Gas)	450.00
Kuwait	Kuwait Investment Authority <sup>7</sup>	2007	Commodity (Oil & Gas)	296.00
Singapore	Government of Singapore Investment Corporation <sup>8</sup>	1953	Trade Surplus	220.00
Russia	National Wealth Fund and Reserve Fund <sup>9</sup>	2006	Commodity (Oil & Gas)	172.90
Singapore	Temasek Holdings <sup>1</sup>	1981	Trade Surplus	157.90
China	National Social Security Fund <sup>7</sup>	2000	Trade Surplus	141.40
Qatar	Qatar Investment Authority <sup>7</sup>	1974	Commodity (Oil & Gas)	135.00
Australia	Australian Future Fund <sup>2</sup>	2006	Non-Commodity	83.10
UAE - Dubai	Investment Corporation of Dubai <sup>1</sup>	2006	Commodity (Oil & Gas)	70.00
Libya	Libyan Investment Authority <sup>1</sup>	2003	Commodity (Oil & Gas)	64.20
UAE-Dubai	International Petroleum Investment Company <sup>2</sup>	1984	Commodity (Oil & Gas)	60.00
UAE-Abu Dhabi	Mubadala Development Company PJSC <sup>1</sup>	1993	Commodity (Oil & Gas)	55.00
Kazakhstan	Kazakhstan National Fund <sup>1</sup>	1983	Commodity (Oil & Gas)	52.30
Republic of Korea	Korea Investment Corporation <sup>7</sup>	2006	Government-Linked Firms	43.00
Malaysia	Khazanah Nasional Berhad <sup>1</sup>	2000	Government-Linked Firms	40.20
Brunei	Brunei Investment Agency <sup>7</sup>	1983	Commodity (Oil & Gas)	39.00
Azerbaijan	State Oil Fund of Azerbaijan <sup>2</sup>	1999	Commodity (Oil & Gas)	34.30
Ireland	National Pension Reserve Fund <sup>2</sup>	2001	Non-Commodity	19.60
New Zealand	New Zealand Superannuation Fund <sup>2</sup>	2001	Non-Commodity	17.90
East Timor	Timor-Leste Petroleum Fund <sup>2</sup>	2005	Commodity (Oil & Gas)	13.00
UAE - Dubai	Istithmar World <sup>1</sup>	2003	Government-Linked Firms	11.50
Bahrain	Mumtalakat Holding Company <sup>7</sup>	2006	Government-Linked Firms	11.20
UAE	Emirates Investment Authority <sup>1</sup>	2007	Commodity (Oil & Gas)	10.00
UAE-Abu Dhabi	Abu Dhabi Investment Council <sup>1</sup>	2005	Commodity (Oil & Gas)	10.00
Oman	State General Reserve Fund <sup>1</sup>	1980	Commodity (Oil & Gas)	8.20
UAE-Ras Al Khaimah	Ras Al Khaimah Investment Authority <sup>1</sup>	2005	Commodity (Oil & Gas)	2.00
Vietnam	State Capital Investment Corporation <sup>1</sup>	2005	Government-Linked Firms	0.60
Kiribati	Revenue Equalization Reserve Fund <sup>1</sup>	1956	Commodity (Phosphates)	0.50
São Tomé & Príncipe	National Oil Account <sup>1</sup>	2004	Commodity (Oil & Gas)	< 0.01
Oman	Oman Investment Fund	2006	Commodity (Oil & Gas)	Unknown
UAE - Dubai	Dubai International Financial Center	2006	Government-Linked Firms	Unknown
			Total OIL & GAS	2,218.20
			TOTAL TRADE SURPLUS	1,001.50
			TOTAL OTHER	227.60
			<b>TOTAL AUM</b>	<b>3,447.30</b>

- **33** SWFs meeting the SIL definition
- Total AUM: **US\$ 3,447bn**
- Oil&Gas AUM: **US\$ 2,216bn**



# Macroeconomic drivers: FX reserves

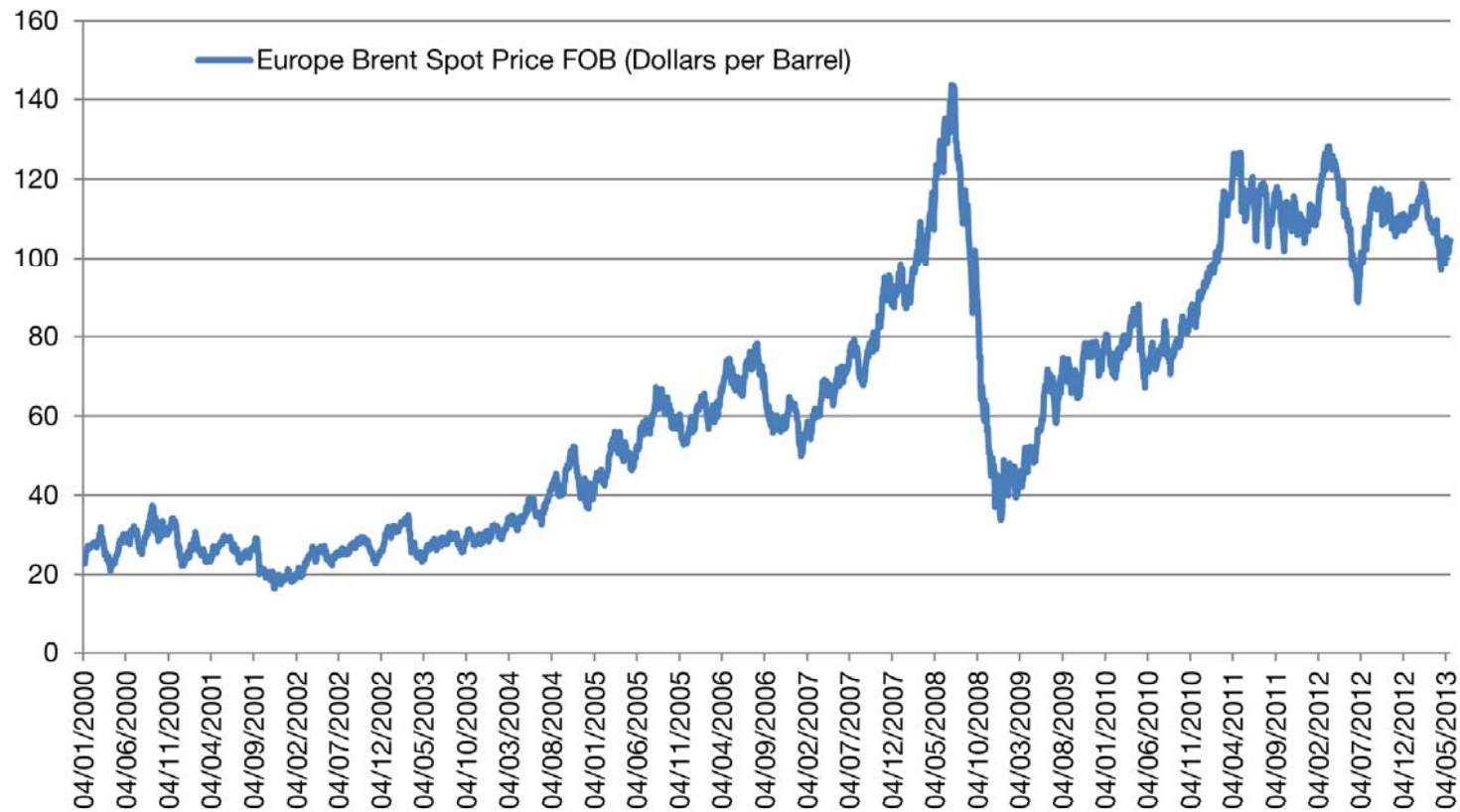


Source: IMF International Financial Statistics (IFS), 2013/3

- World FX reserves (as of 2012): US\$11,5trn; **EM US\$7,5trn (66 %)**
- Exponential growth: FX increased **7X** since 1999, especially in China and MENA



# Macroeconomic drivers: oil prices

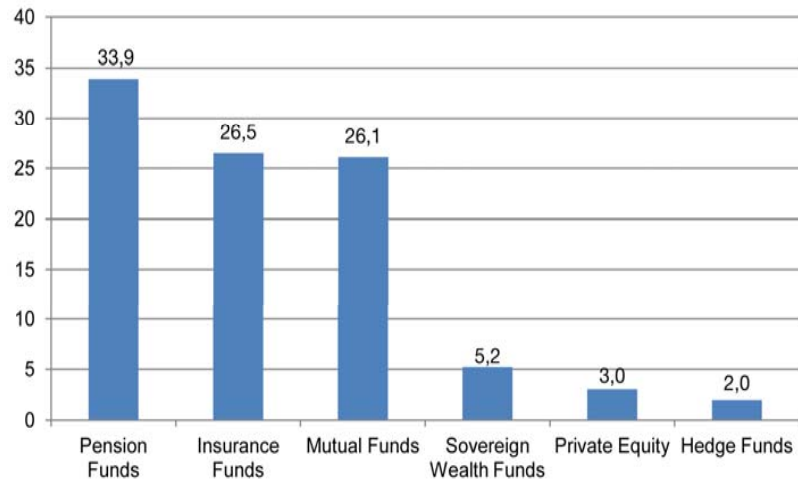


Source: Thomson Reuters



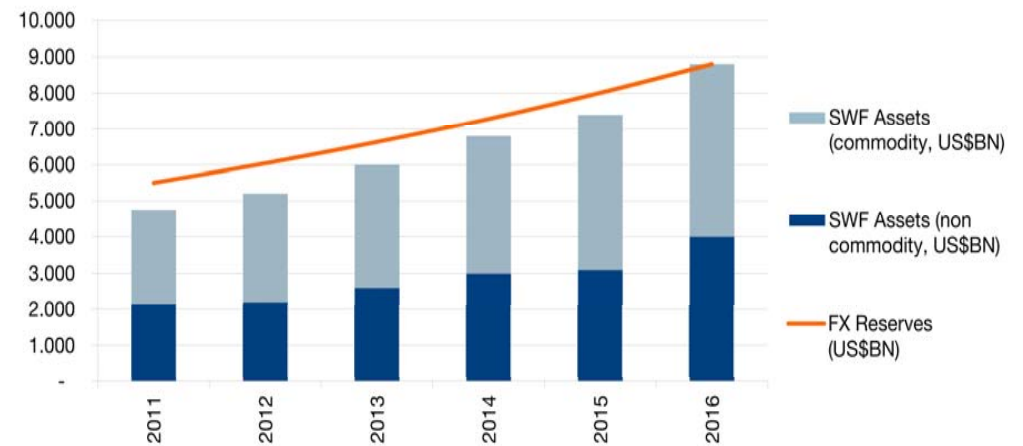
# SWFs are here to stay...

Global AUM (US\$trn, 2012)



Source: CityUk

SWF's Assets Forecast (US\$ml, 2012)

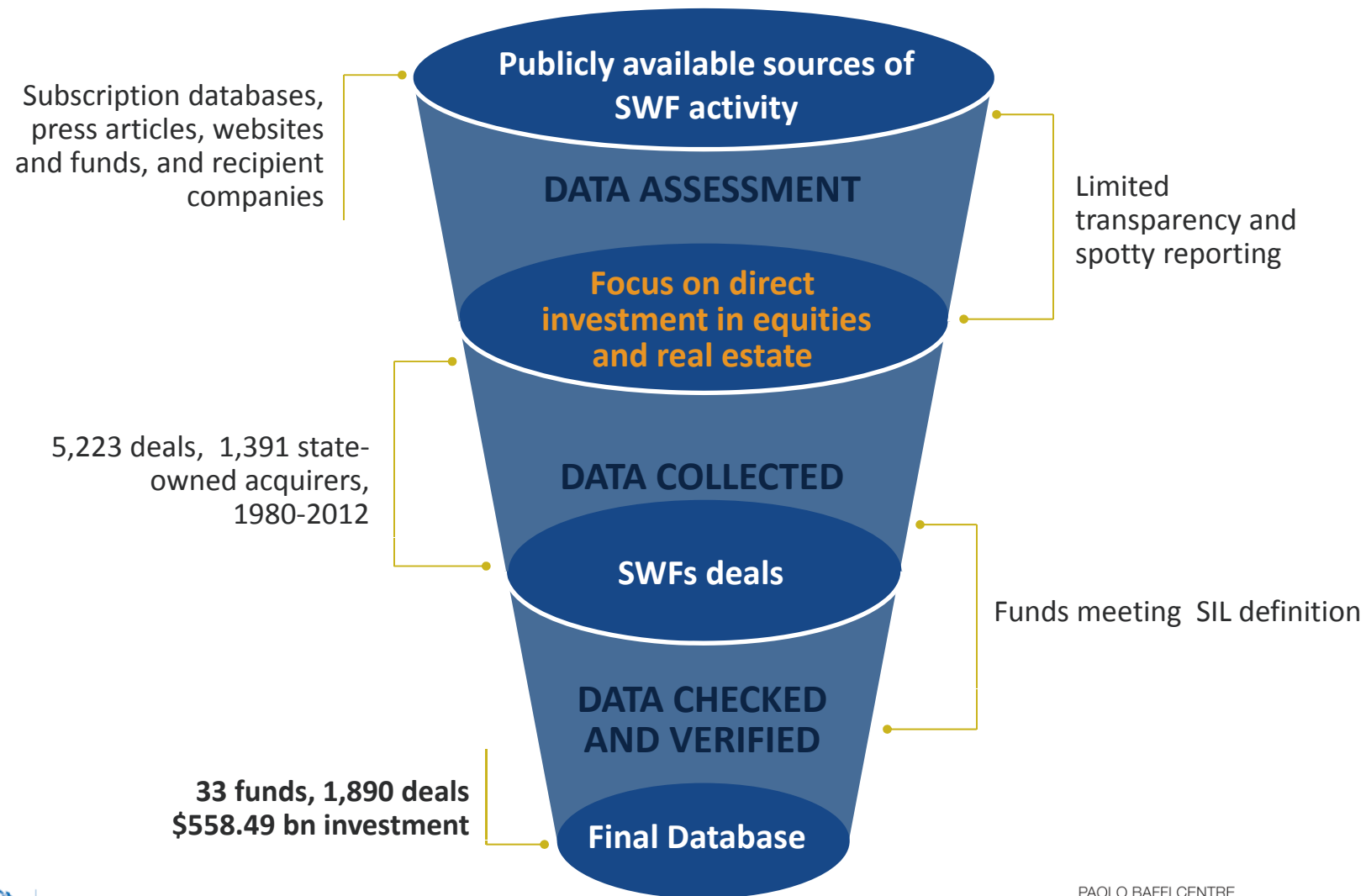


Source: Castelli and Scacciavillani, 2012

- Fastest growing class of asset owners since 2010 (24 %)
- Projected to exceed the \$8trn mark in 2016 by internal growth and transfers from current account surpluses

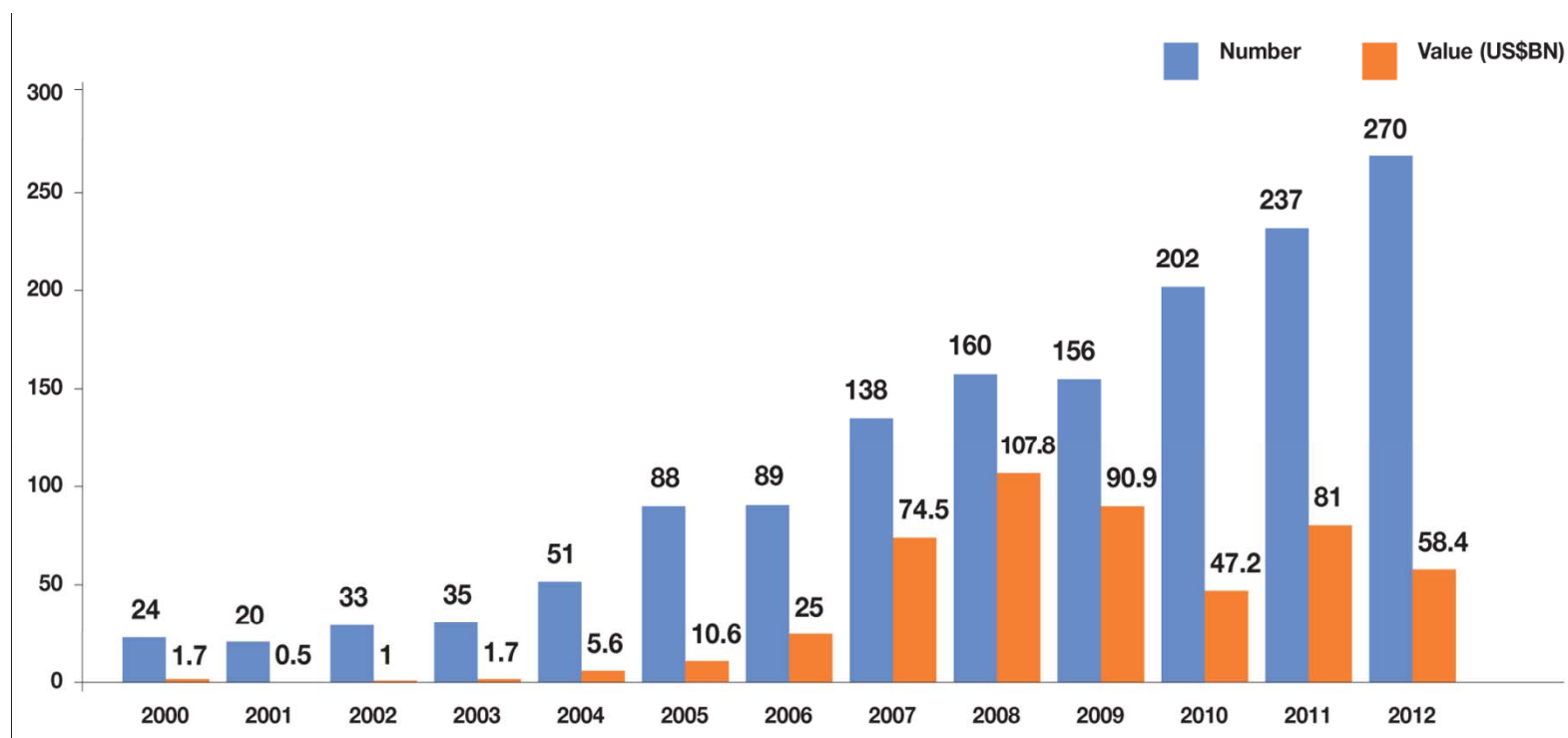


# SIL's SWF Transaction Database methodology



# Trends and cycles

## Direct SWF Investments since 2000



- **270 deals** worth **\$58.4bn** in 2012
- **14 % increase in number of deals** and **30 % decrease in value** since 2011
- Smaller deals on average: in-house management, better diversification, better disclosure

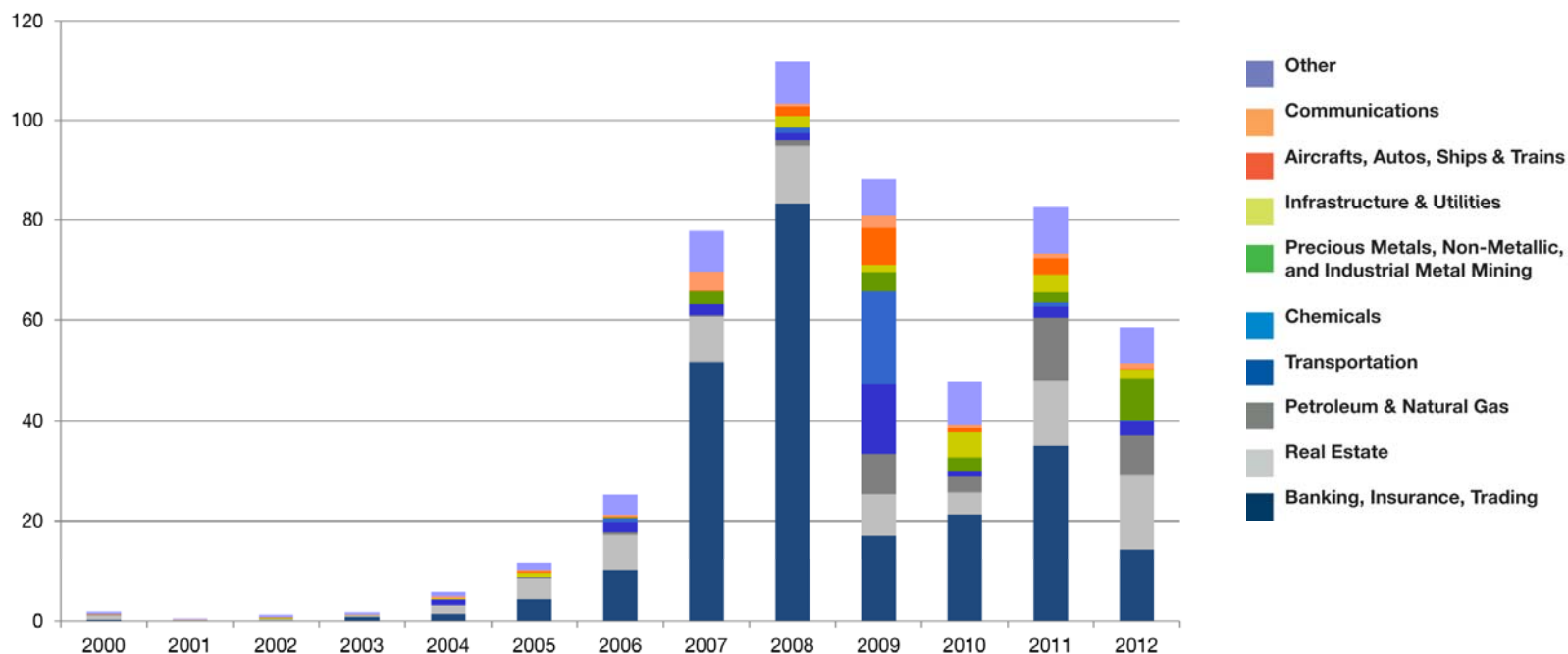




# In quest of diversification

## Direct SWF Investments by Sector, 2012

Value of Direct SWF Foreign Investments by Target Sector, 2012

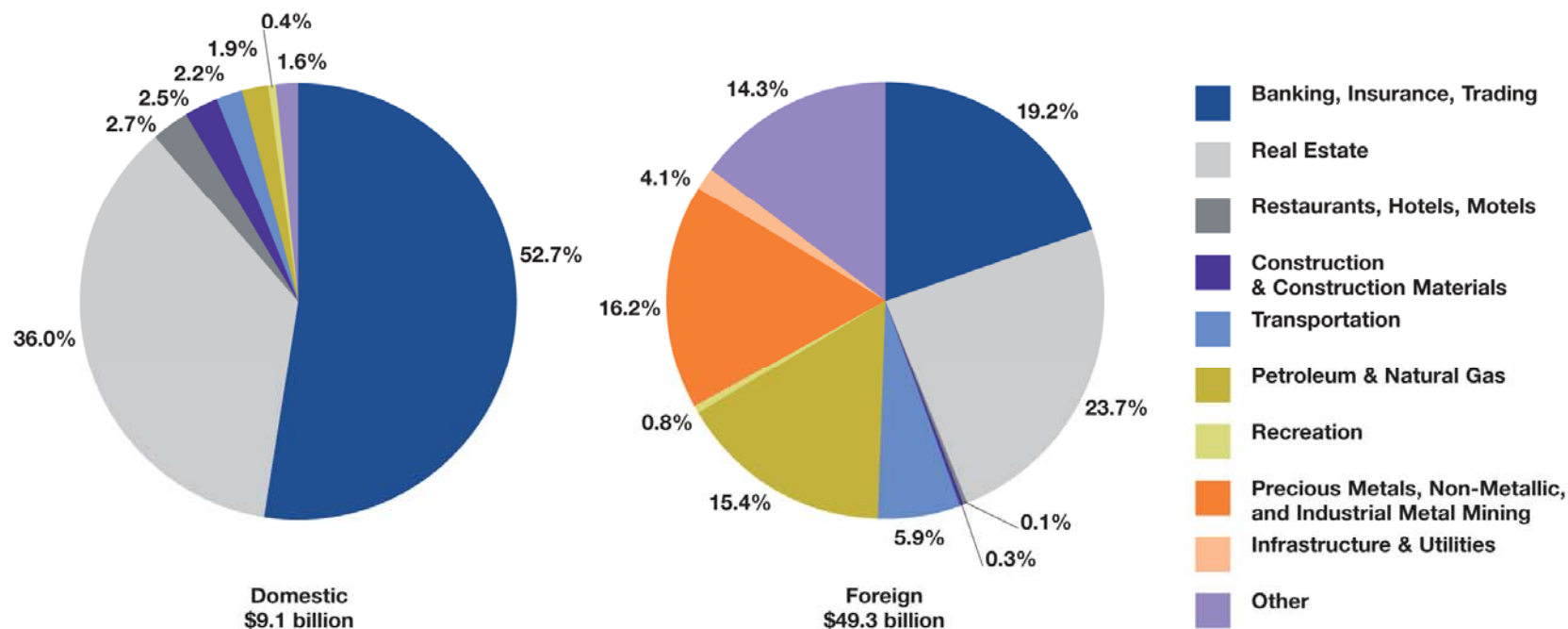


- Boom in **Real Estate**: \$15bn and 26 % of total investment (50 % annual increase), both in trophy assets (mainly London) and development (M+S Pte Ltd)
- Surge in **commodities** (including O&G) and associated processing industries: \$15.8bn invested (Xstrata and Total deals worth \$11.5bn)



# The end of bank bailouts?

## Domestic and Foreign Direct SWF Investments by Sectors, 2012

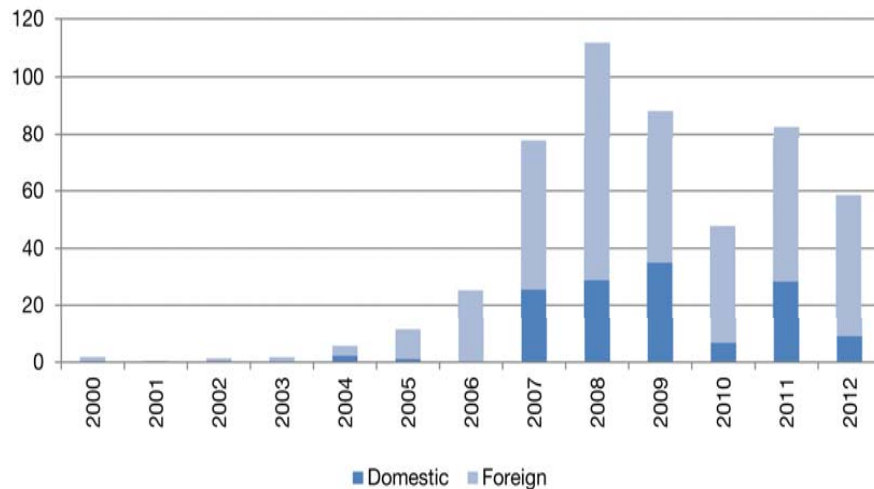


- **66** deals and **\$14.3bn** invested in the financial sector, primarily abroad
- Bank bailouts in the West slowing down: QIA and Aabar called in in Credit Suisse and Unicredit
- Domestic recap in China (CIC's Central Huijin usual lender of last resort...)

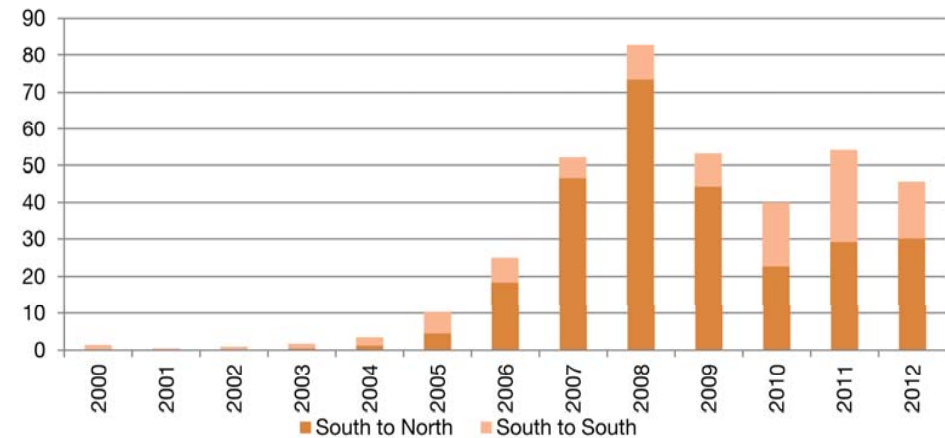


# The geography of SWF direct investment

SWF Investments by Value (US\$bn)



Foreign SWF Investments by Value (US\$bn)

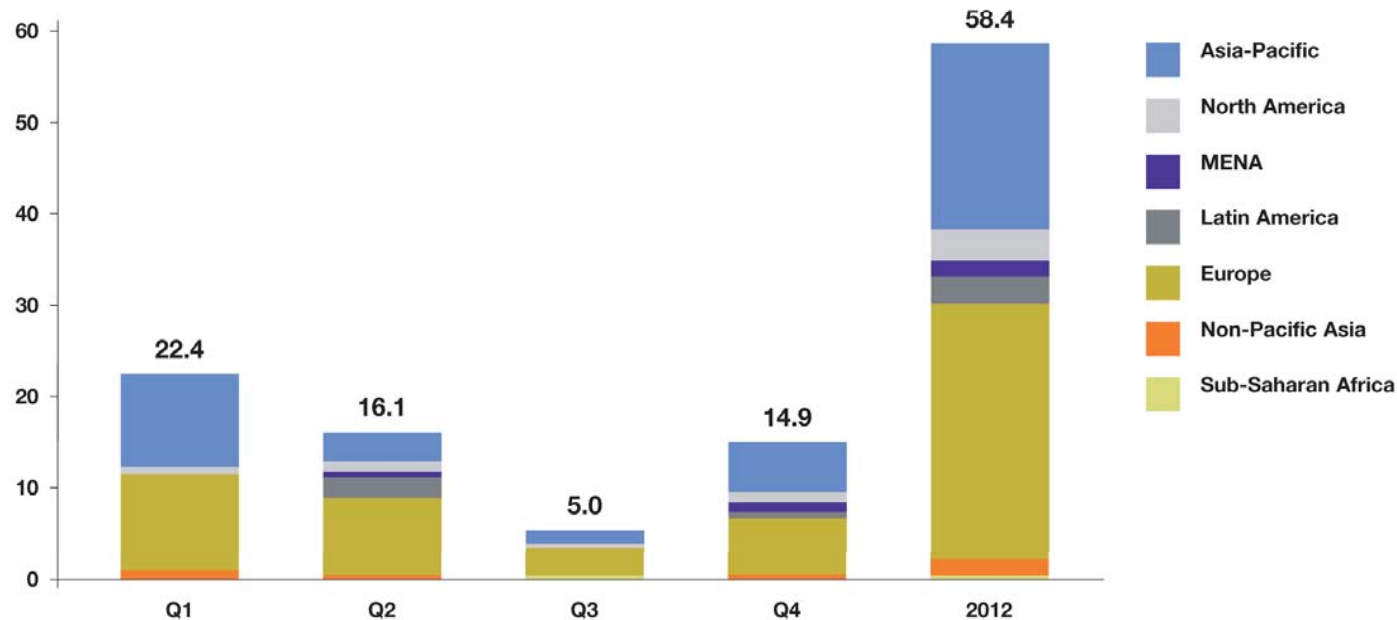


- Strong increase in cross-border activity: in 2012, foreign deals account for **84 %** of investment
- Going South-South: since 2009, increasing share of foreign SWF investment within MENA, Asia, Africa and LA



# Targeting Europe, with a twist...

Value of Direct SWF Investments by Target Region, 2012

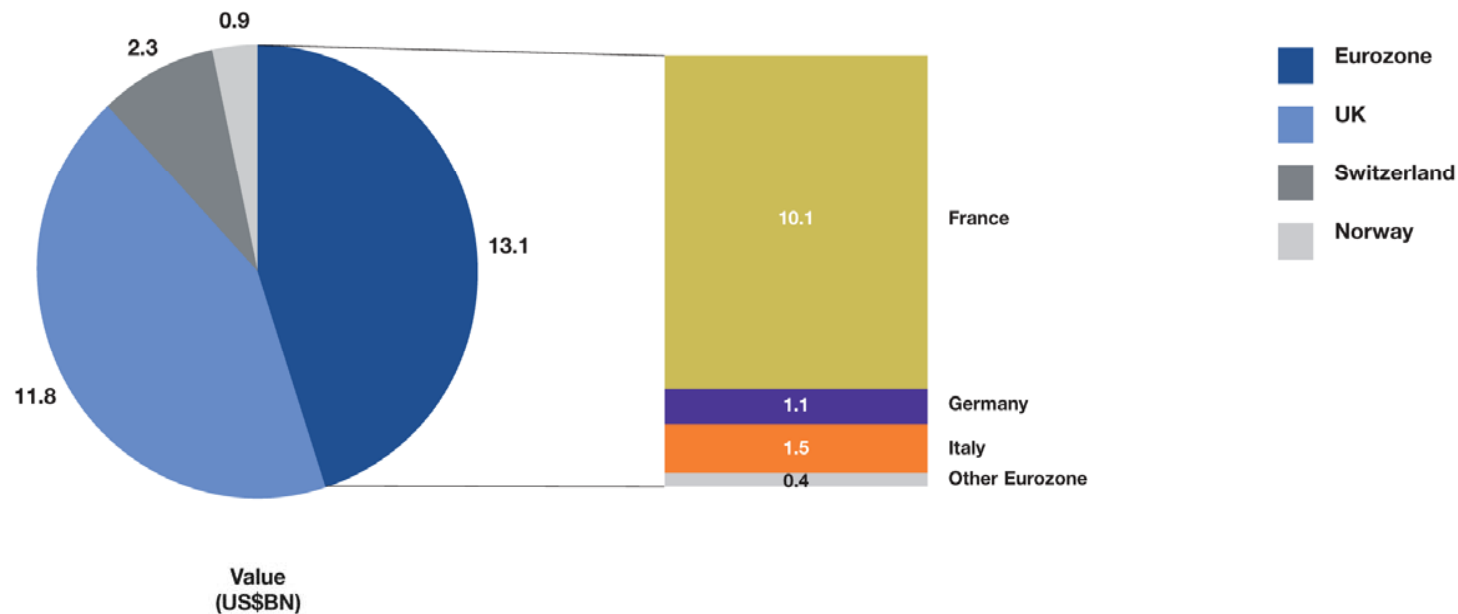


- Europe the region of choice: **73** deals and **\$28bn** of investment; slight decline in USA
- Not a confidence vote on Eurozone: UK and Switzerland account for **50 %** of foreign acquisitions by value
- SWFs seek exposure to emerging markets growth via European multinationals



# A tale of two countries...

## Foreign SWF Investments in Europe, 2012

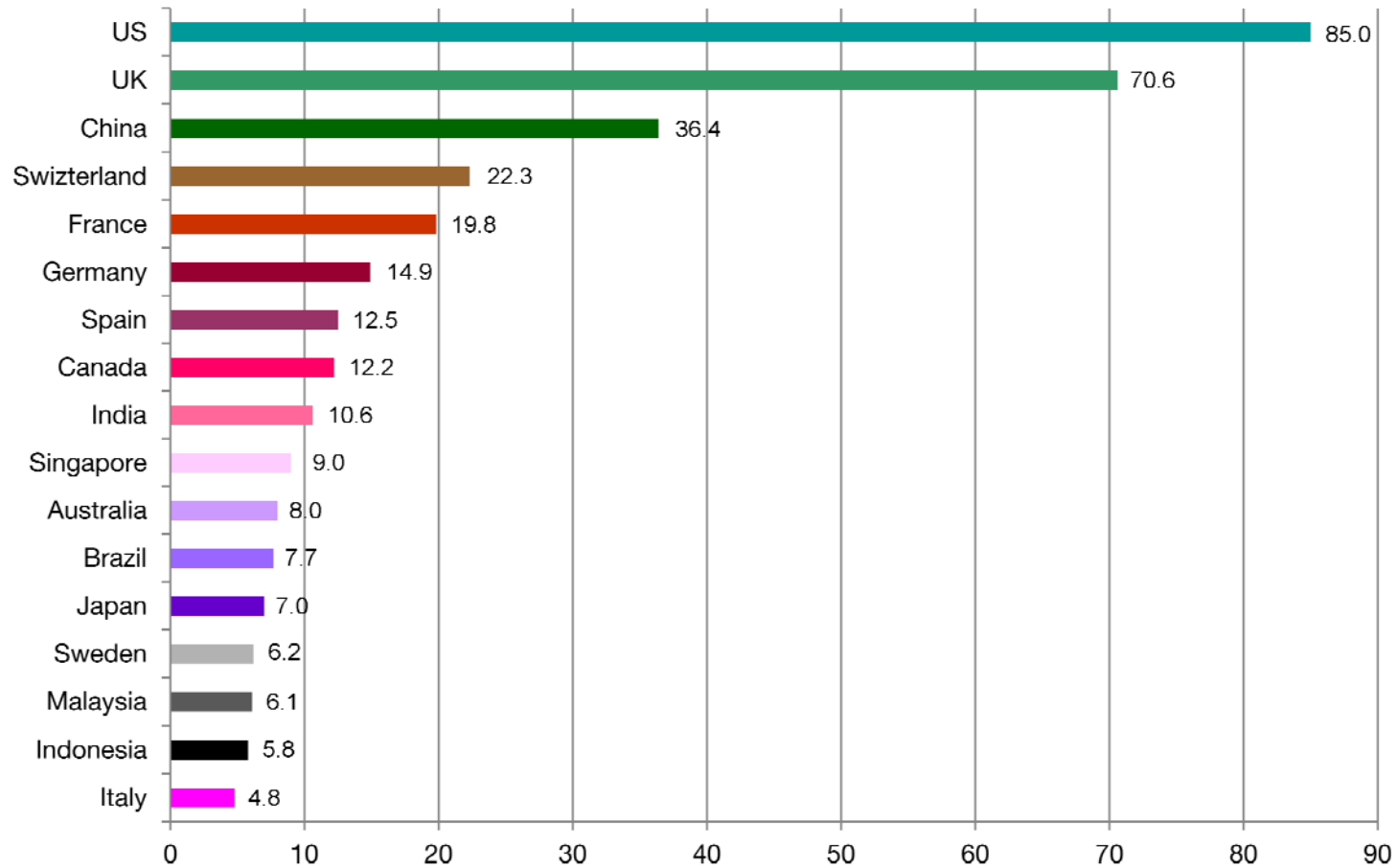


- United Kingdom: **15 deals worth \$11.8**. Highly skewed on Xstrata and RE
- France: **14 deals worth \$10.1**. Qatar Holding shopping heavily across sectors: Total, Vivendi, Euteland Champs-Eliseès “Le Lido”)
- Little Italy, but slowly in the move thanks to Abaar recap in Unicredit, Mubadala in Emi, QH JV with FSI



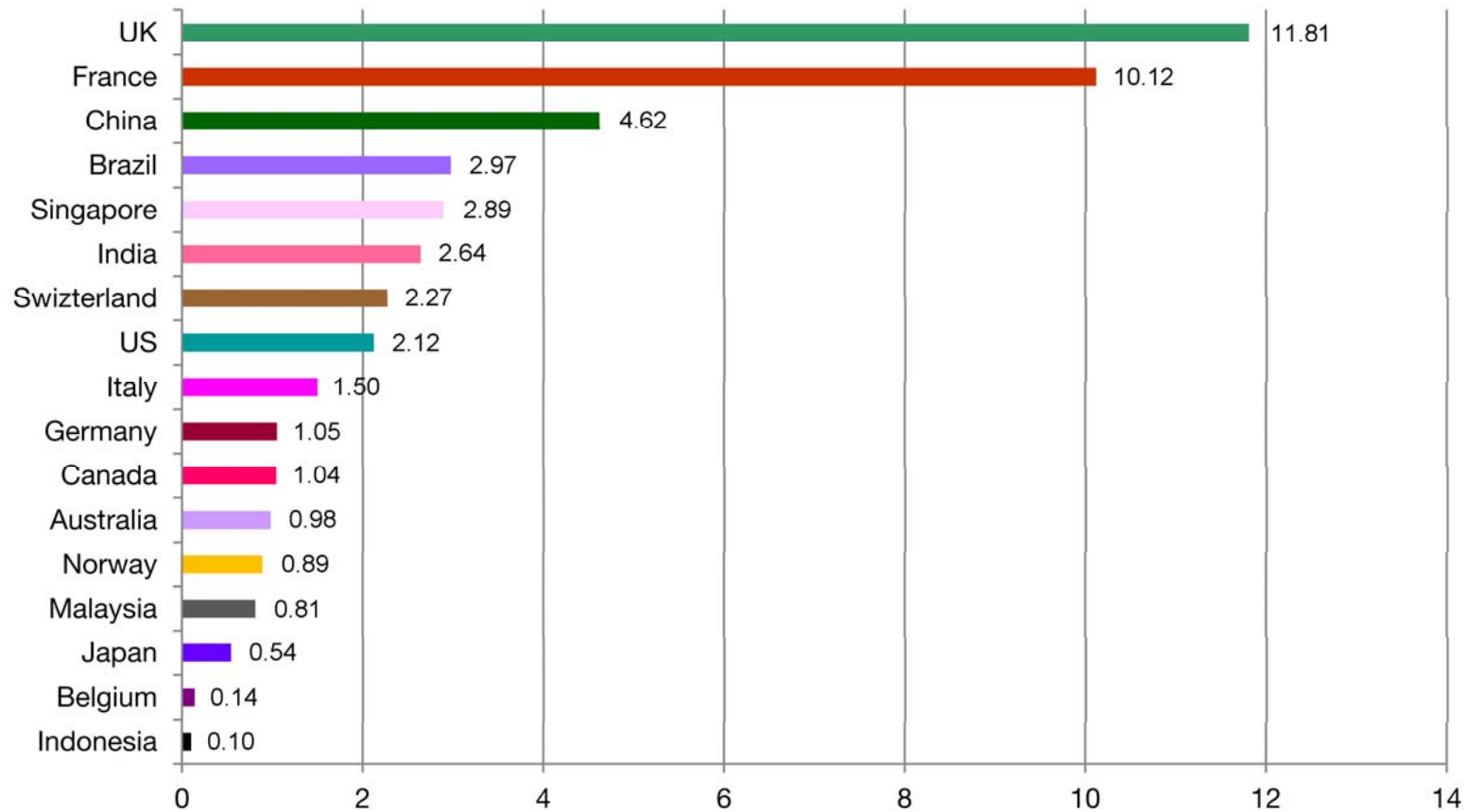
# Follow the money

Target Country Ranking by Value (US\$bn), 2000-2012



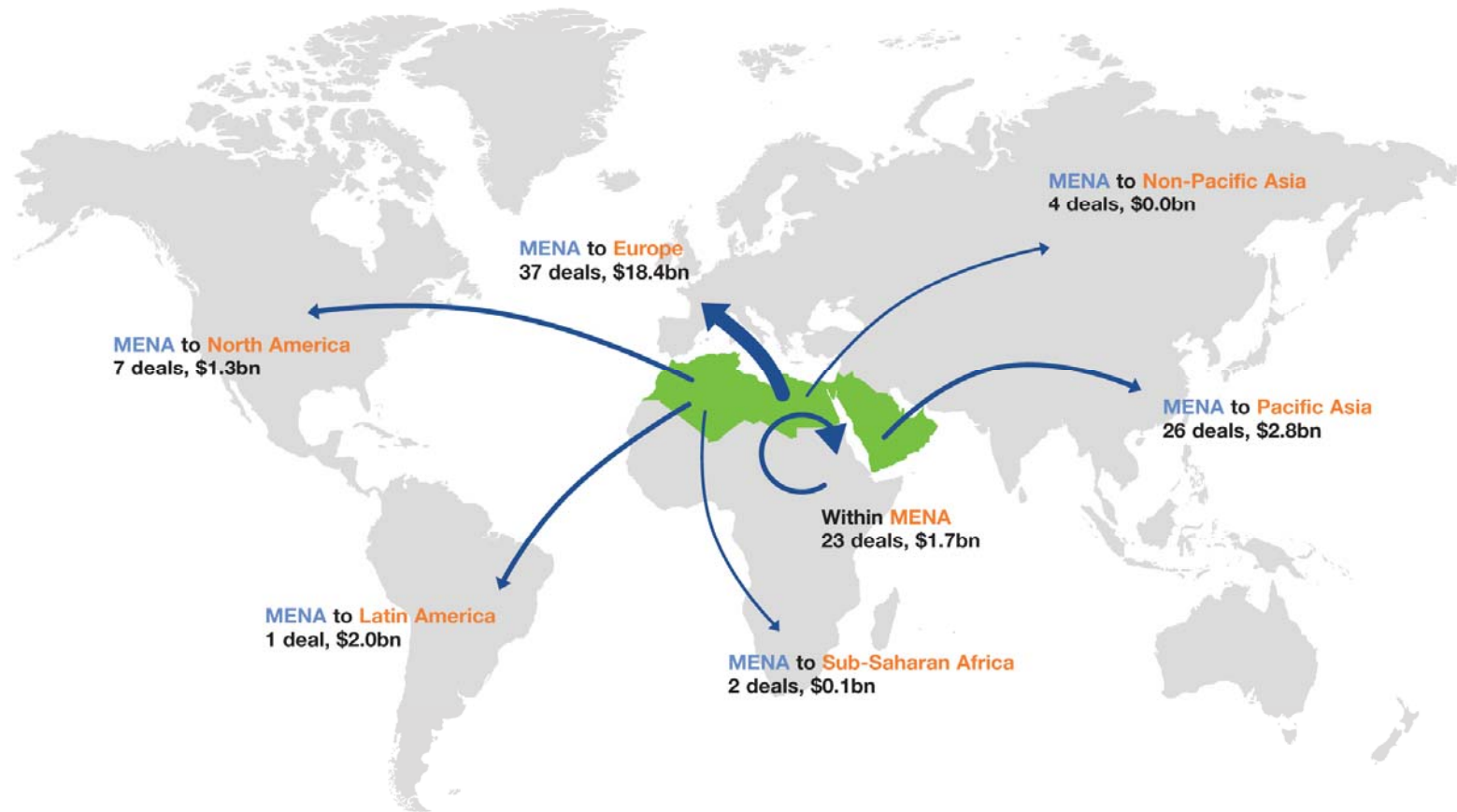
# Follow the money

## Target Country Ranking by Value (US\$bn), 2012



# Crossing Mare Nostrum...

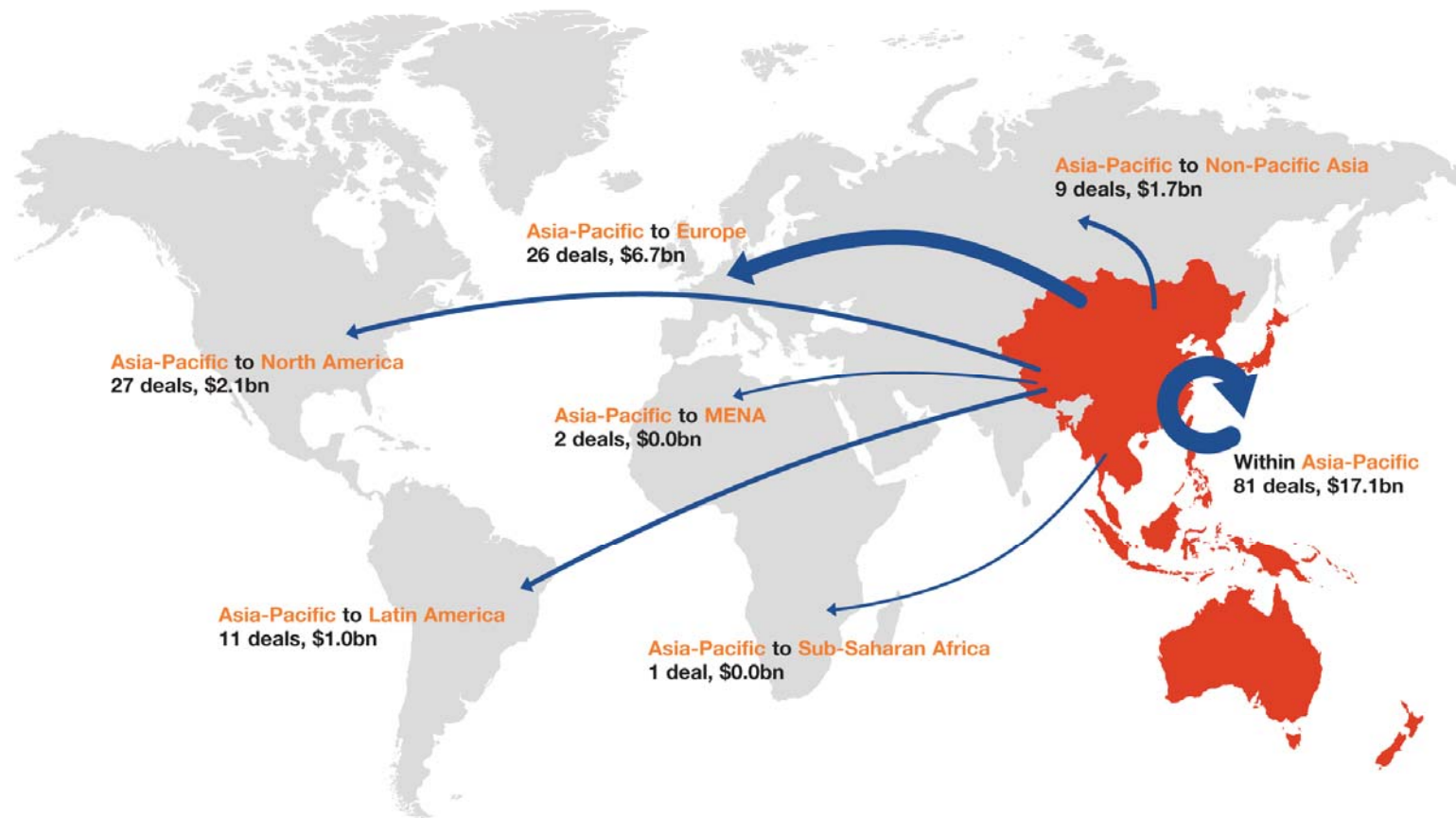
Investment Flows from Middle East & North Africa SWFs, 2012





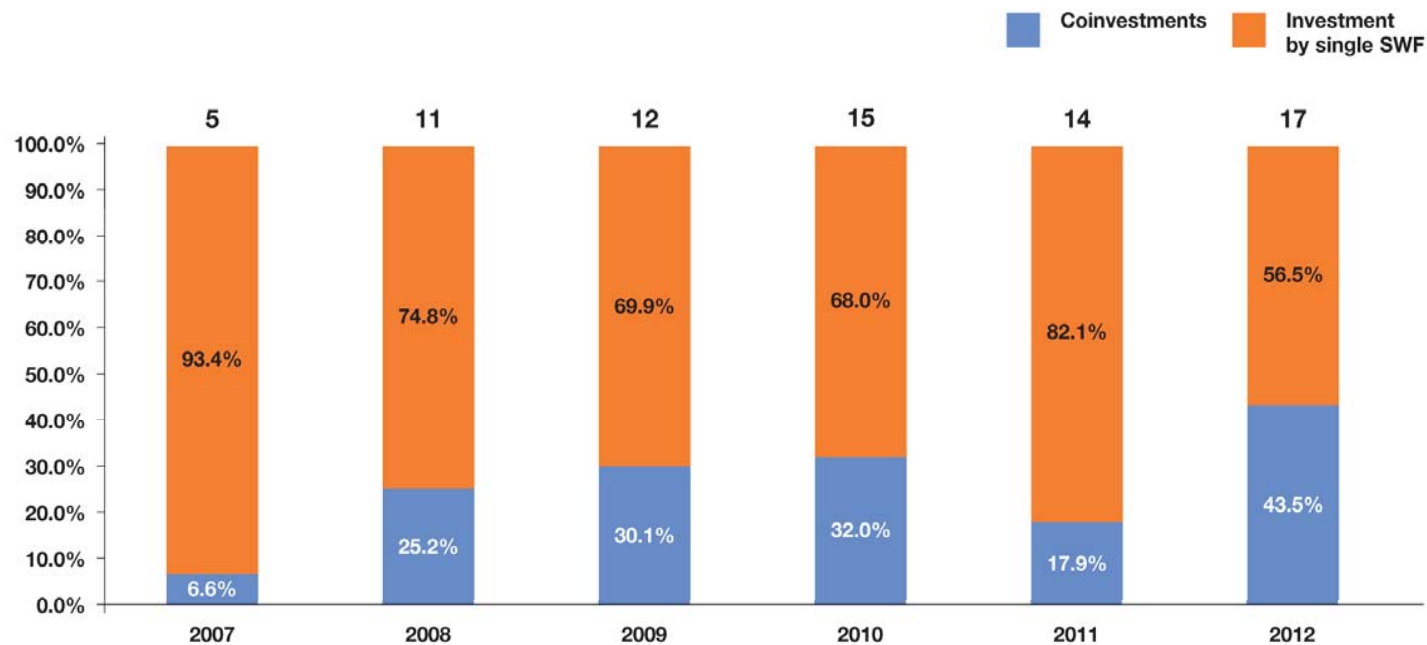
# The Asian Home Bias

Investment Flows from Asia-Pacific SWFs, 2012



# Teaming up

Coinvestments by SWFs (% of total value in US\$ and # of targets)



- In 2012, **41 co-investments** (2 or more SWFs on the same target) on 17 targets worth **\$24,7bn**, 44 % of total deal value
- Treble dividend: improved diversification, cost savings, mitigation of political concerns
- Glencore-Xstrata: a landmark deal?



# Teaming up (contd.)

A landmark deal?

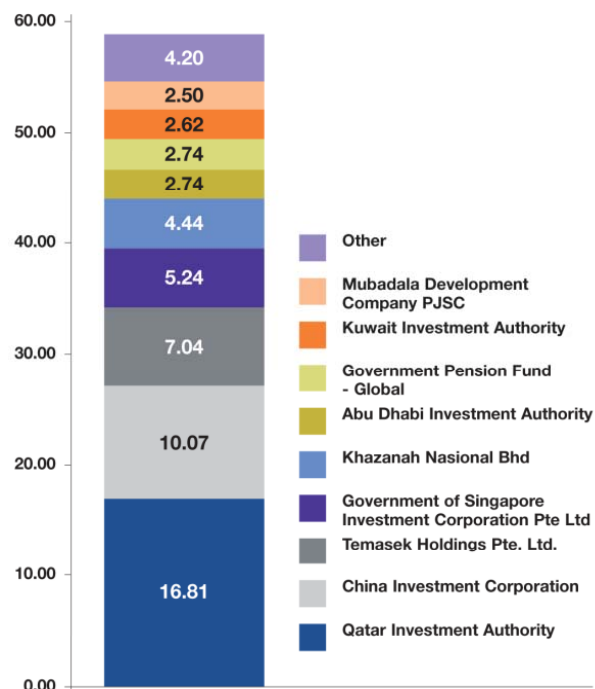


- **Glencore-Xstrata:**
  - the fifth-largest takeover in the history of the natural resources
  - the third-largest global integrated commodity company by market cap
- Quintessence of SWFco-investment: QIA, Norway GPF, and CIC involved
- QIA: the pivotal minority blockholder successfully bargaining for better terms
- The future of SWFs: From “Quiet Leviathans” to “Kingmakers”?



# QIA, the small giant

## Value of direct Investments by Top Spending SWFs, 2012



Fund	Target Name	Target Country	Sector	Deal Size Country (Value US\$ Billion)
Qatar Investment Authority	Xstrata plc	UK	Precious Metals, Non-Metallic, and Industrial Metal Mining	4.37
China Investment Corporation	China Export & Credit Insurance Corp.	China	Banking, Insurance, Trading	3.21
Khazanah Nasional Bhd	M+S Pte Ltd	Singapore	Real Estate	2.79
China Investment Corporation	TOTAL SA	France	Petroleum & Natural Gas	2.65
Qatar Investment Authority	Total SA	France	Petroleum & Natural Gas	2.63
Temasek Holdings Pte. Ltd.	Industrial and Commercial Bank of China	China	Banking, Insurance, Trading	2.31
Mubadala Development Company PJSC	Centennial Asset Brazilian Equity Fund LLC	Brazil	Precious Metals, Non-Metallic, and Industrial Metal Mining	2.00
Temasek Holdings Pte. Ltd.	M+S Pte Ltd	Singapore	Real Estate	1.86
Qatar Investment Authority	FGP Topco Ltd.	UK	Transportation	1.45
Qatar Investment Authority	Total SA	France	Petroleum & Natural Gas	1.11
Government Pension Fund - Global	Uetlihof office complex, Zurich	Switzerland	Real Estate	1.08
Abu Dhabi Investment Authority	Open Grid Europe GmbH	Germany	Infrastructure & Utilities	1.01

- In 2012, QIA outgunned other SWFs with 37 deals worth \$16.81, 29 percent of total direct investment value
- Usual suspects CIC, GIC and Temasek
- Kazanah Nasional Bernhard “new kid on the block”



## Cautious Change



2012 marked possibly a turning point in SWF investment strategy:

- Improved diversification
- From external to in-house asset management
- Shareholder activism
- Enhanced cooperation

Stay tuned...

Thank you

