

Bocconi

Towards a New Normal

HIGHLIGHTS OF THE SWF ANNUAL REPORT 2014



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Sovereign Investment Workshop

The New Normal

Forget the Good Old Days...



- The great convergence
- Oil shock legacy
- Ultra-low yields environment under QE



The New Normal

Implications for SWFs



- Lower inflows from FX
- Internal asset growth
- Implicit liabilities materialize



The Sovereign Investment Landscape

The SIL SWF Definition

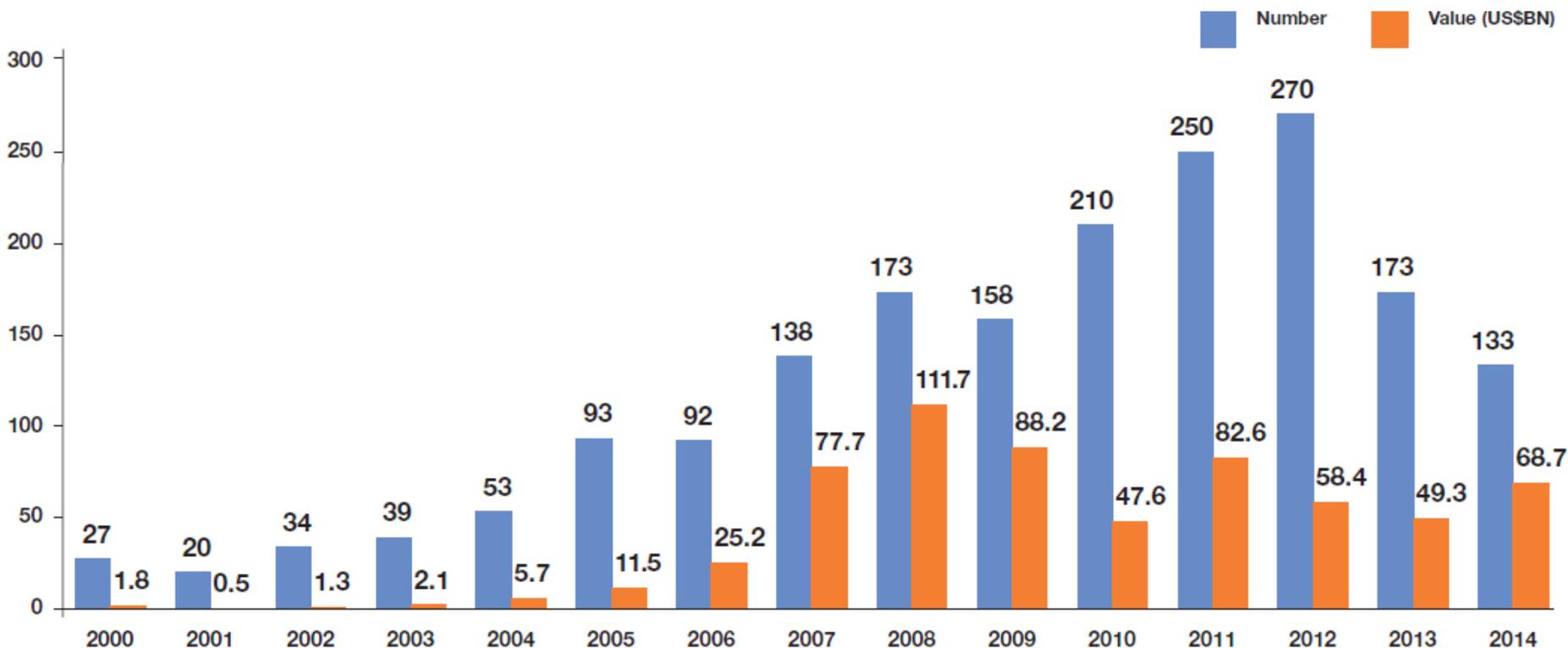
A SWF is an investment vehicle :

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



Less deals, more value

SWF Direct Equity Investments since 2000

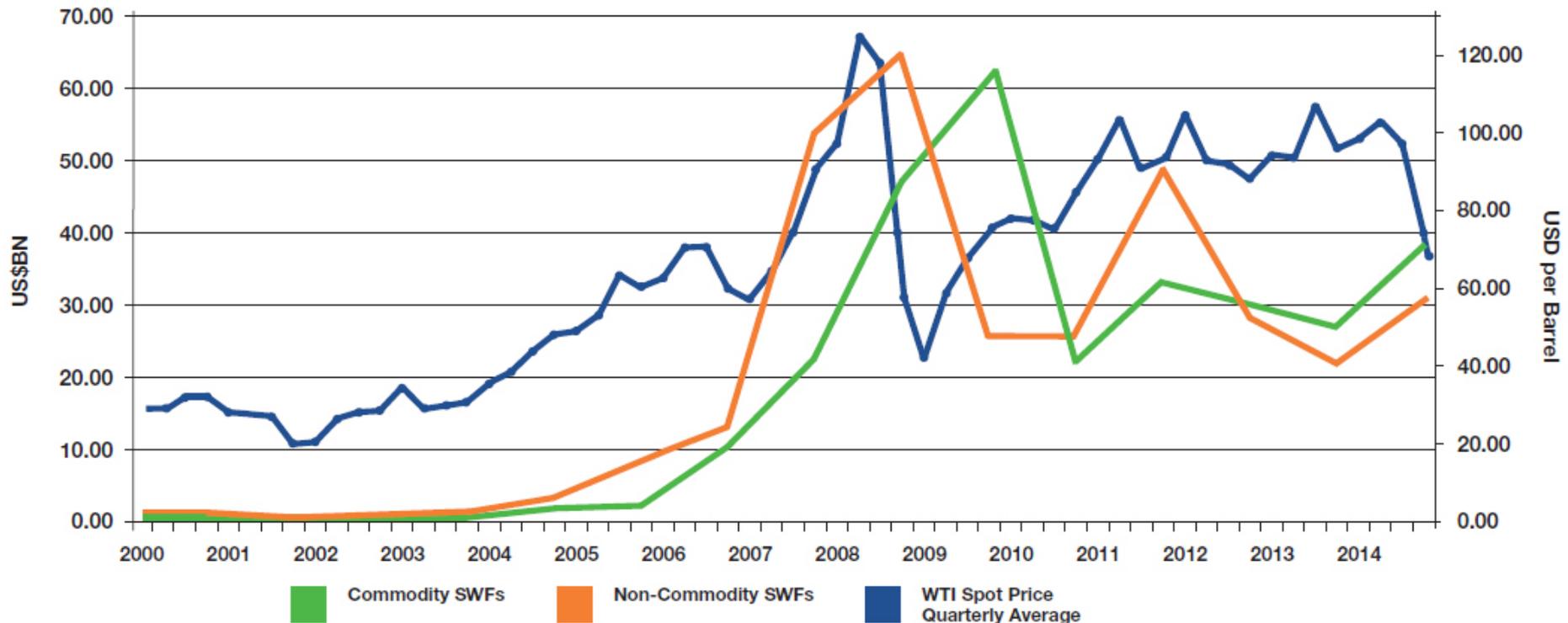


- **133 deals** worth **\$68.7 bn** in 2014
- **39%** increase by value and **23%** decrease in the number of transactions of 2014
- Oil shock effects only partly materialized...



SWFs behavior and price shocks

SWF Investments by Source and the Oil Price, 2000 - 2014

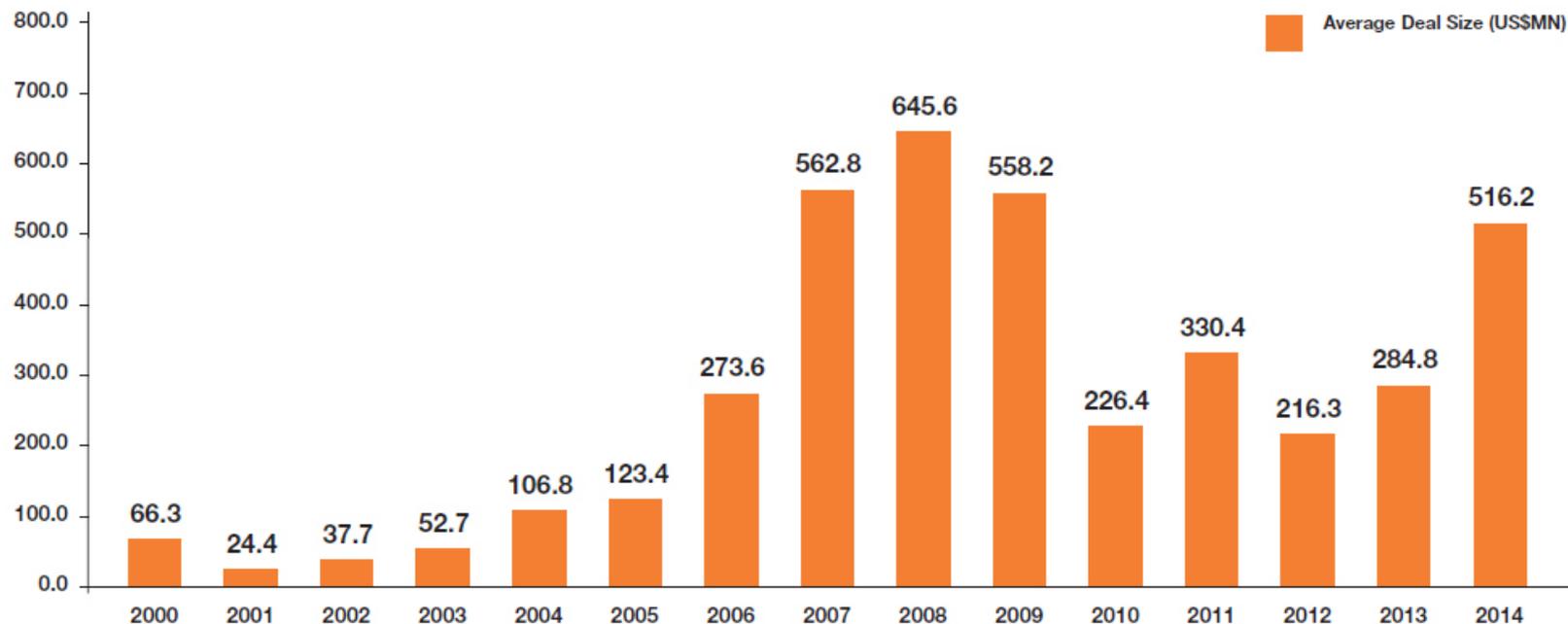


- Trade surplus (CIC, Temasek, GIC, etc.) SWFs tend to be more “procyclical”, while resource-related SWF (NBIM, ADIA, QIA, etc.) react with a lag to commodity price movements



The rise of mega-deals

SWF Average Deal Size since 2000

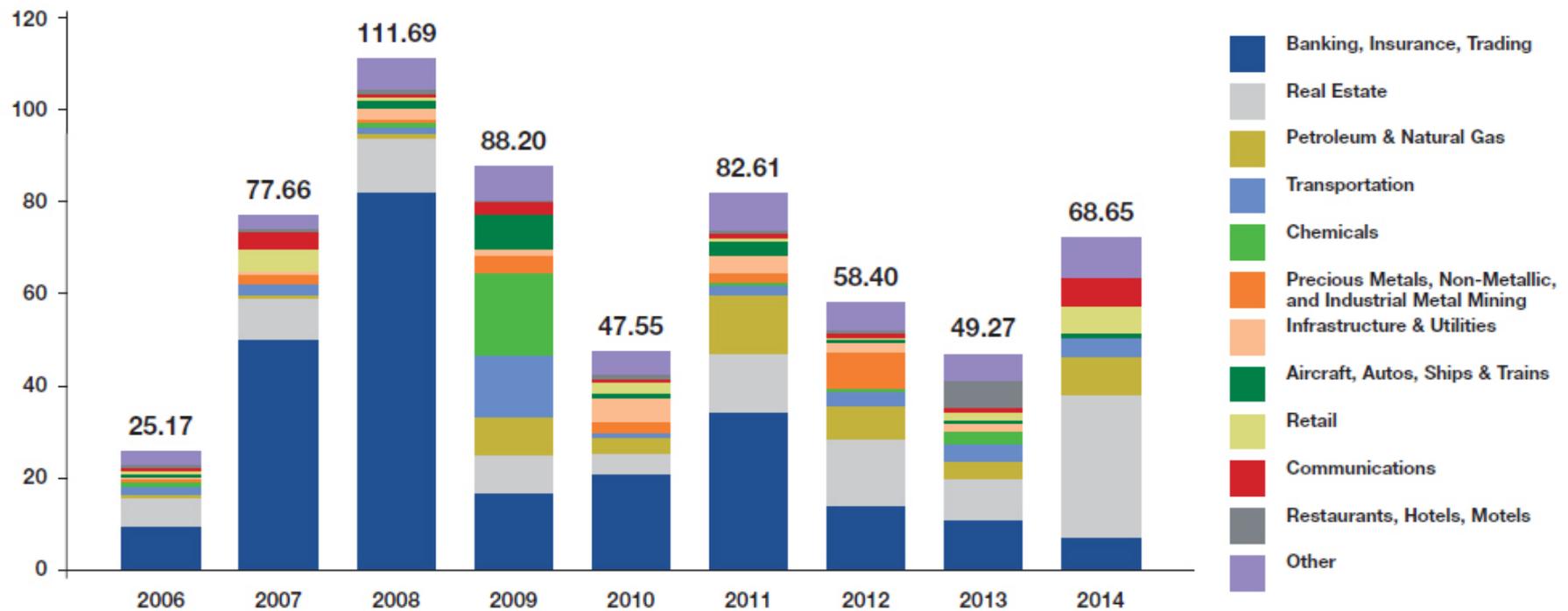


- **80%** increase in the average deal size relative to 2013, reaching **\$516ml**
- SWF average deal value is **eight-fold** benchmark private sector transactions
- In 2014, the **top ten** acquisitions accounted for **50%** of total deal value



The unstoppable rise of Real Estate

Value of SWF Direct Equity Investments by Target Sector, 2006 - 2014



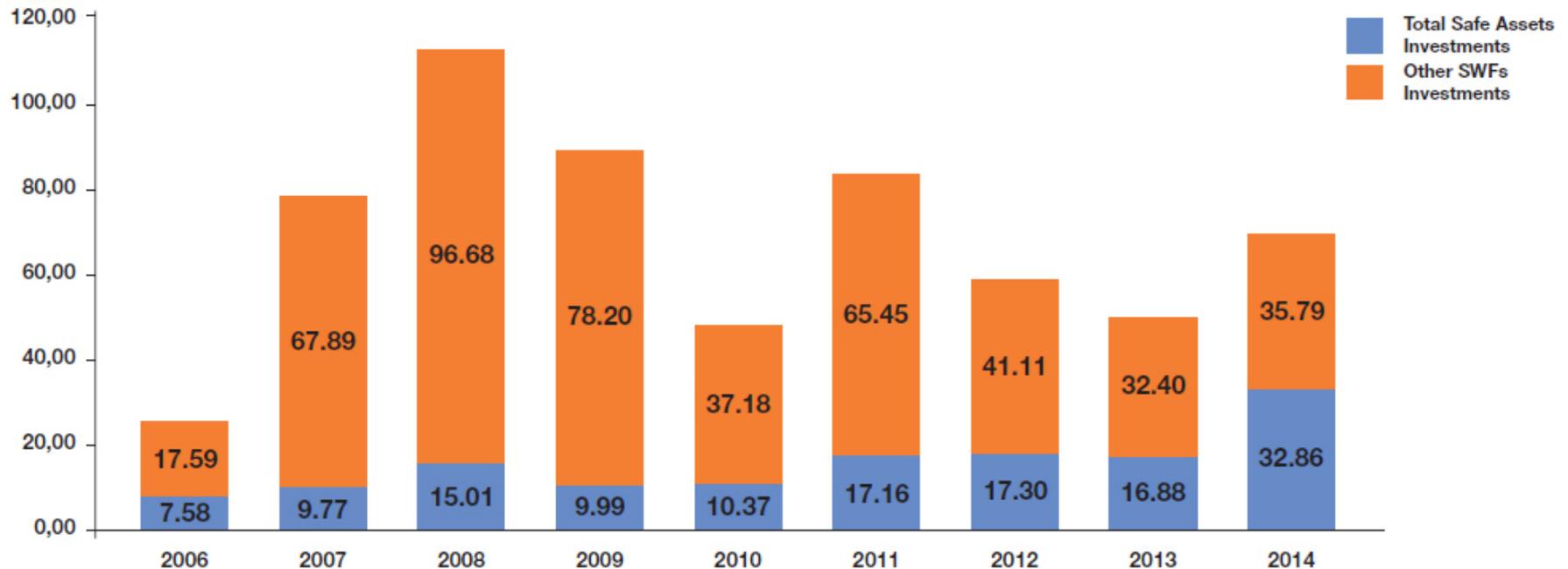
- With **32** deals worth **\$31.5bn**, in 2014 investment in RE reach an all time hit, primarily in US and London
- Once target sector of choice, the financial industry raises less than **10%** of deal value, with \$2bn Russia National Wealth Fund bail-out of VTB Bank sticking out



The flight to safety

SWF Investments in Safe Assets*, 2006 - 2014

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



- Inflation-proof, low-risk safe assets investments continue to grow: in 2014 they account for **46%** of total SWF investment



The shift to active deal-making

QIA's conquest of Canary Wharf

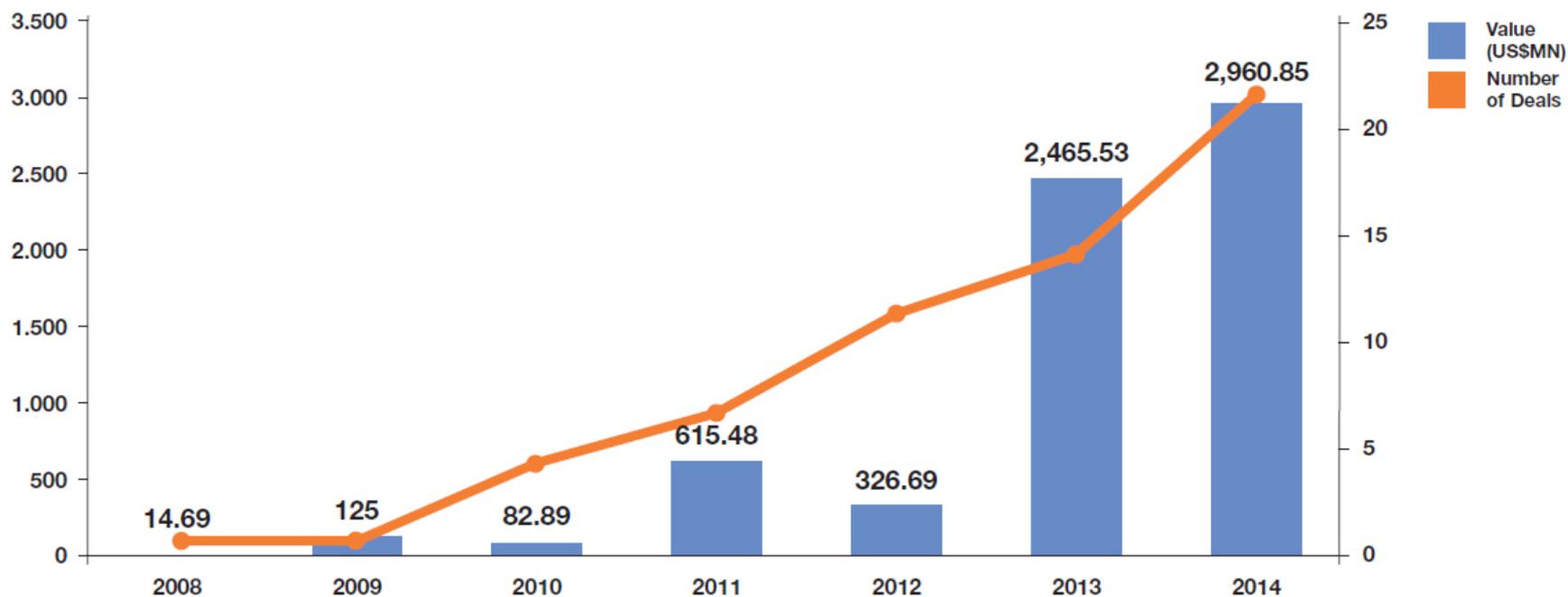


- December 2014: QIA purchases \$1.8bn of newly issued preferred equity shares of Brookfield Property Partners (BPP), a Canadian fund manager.
- QIA and BPP launch a takeover bid for Songbird Estates, the majority owner of Canary Wharf
- Simon Glick, Morgan Stanley and CIC accept the \$4.1bn offer.
- From passivity to shareholder activism



Intermezzo: SWF as venture capitalists

SWF Investments in IT-linked Sectors, 2008-2014



- Increasing SWF appetite for IT, new economy, and electronics: in 2014, \$2.9bn invested in the sector, often providing early stage financing



Intermezzo: SWF as venture capitalists

SWF Investments in IT-linked Sectors over US\$100 million, 2008-2014

Parent Entity Name	Target Name	Target Country	Year	Deal Size (Value US\$MN)
GIC Pte Ltd	BMC Software Inc	USA	2013	\$1,677.53
Mubadala Development Company PJSC	IBM's Microelectronics Business	USA	2014	\$1,500.00
Temasek Holdings Pte Ltd	AsialInfo.Linkage Inc	China	2014	\$437.42
Temasek Holdings Pte Ltd	Alibaba Group Holding Ltd	China	2011	\$400.00
GIC Pte Ltd	iParadigms LLC	USA	2014	\$376.00
GIC Pte Ltd	Kronos Inc	USA	2014	\$375.00
Qatar Investment Authority (QIA)	Samsung Electronics Co. Ltd	South Korea	2013	\$300.00
Qatar Investment Authority (QIA)	BlackBerry Ltd	Canada	2013	\$200.00
GIC Pte Ltd	Genpact Limited	India	2012	\$150.00
New Zealand Superannuation Fund	Datacom Group Ltd	New Zealand	2013	\$142.00
Mubadala Development Company PJSC	Advanced Micro Devices Inc	USA	2009	\$125.00
Temasek Holdings Pte Ltd	Clouday Corp	China	2013	\$110.00
GIC Pte Ltd	KKBox Inc	Taiwan	2014	\$104.00

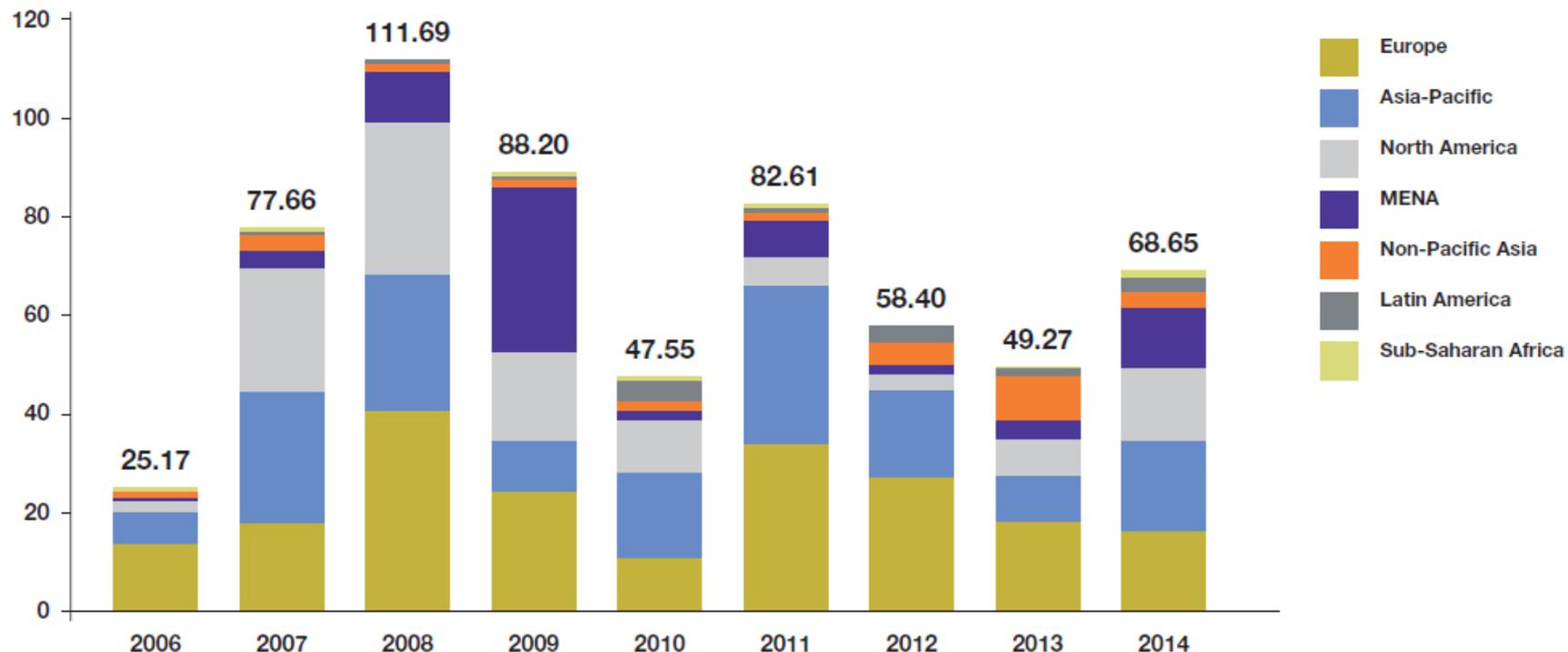
Publicly available data for direct SWF equity & real estate deals, joint ventures and capital injections. Source: Sovereign Investment Lab, Università Bocconi

- Increasing SWF appetite for IT, new economy, and electronics: in 2014, \$2.9bn invested in the sector, often providing early stage financing



A more balanced geography

Value of Direct SWF Investments by Target Region, 2006 - 2014

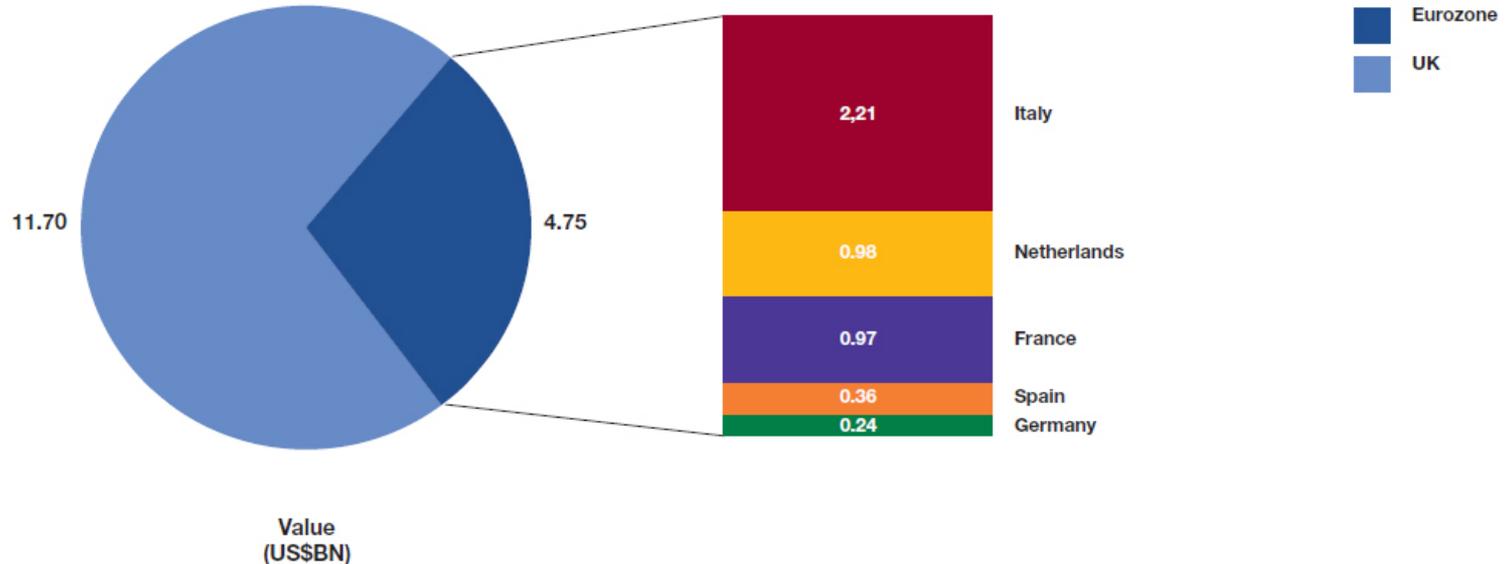


- Developed markets get **55%** of investments, with Europe and the US
- China and MENA on the rise, LATAM under the radar screen



An unattractive Eurozone

Foreign SWF Investments in Europe, 2014

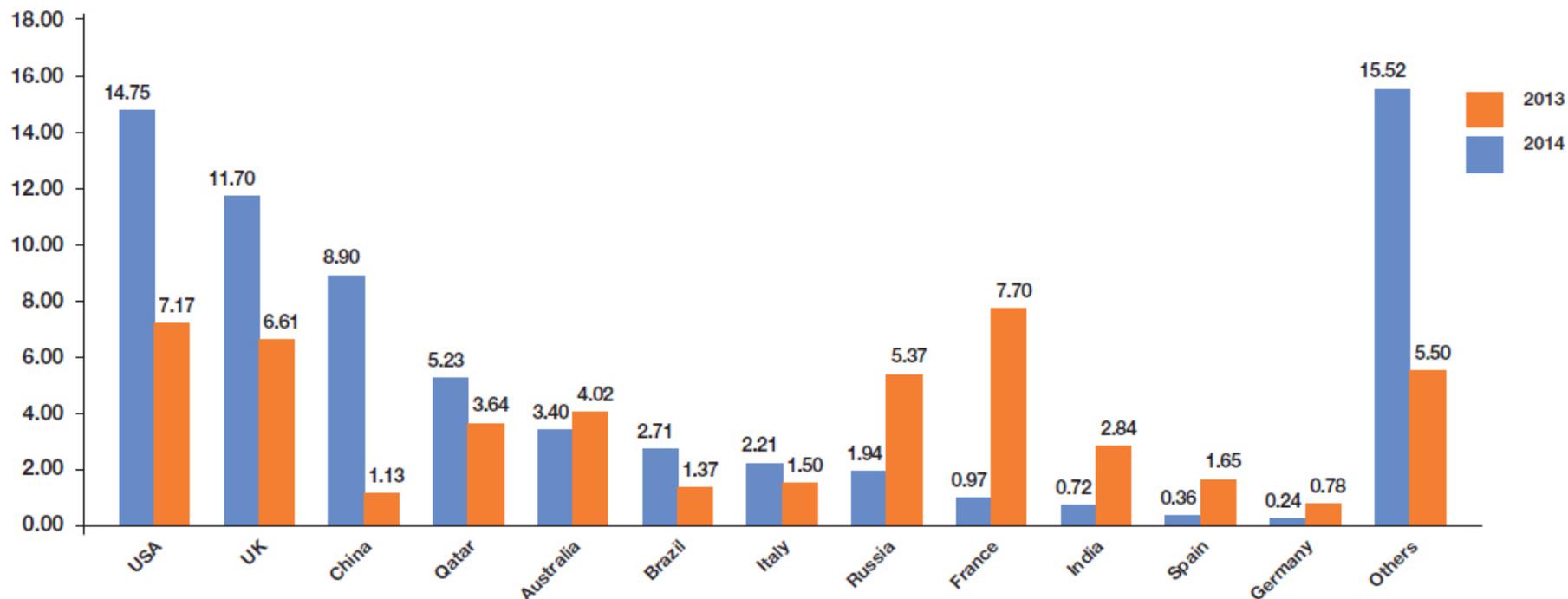


- The United Kingdom dwarfs EZ countries: in 2014, **71%** of SWF investment landed in the UK, primarily in London property market, **\$7.1bn** from QIA
- Italy (finally) on the radar screens: with **\$2.1bn**, first target country of EZ thanks to sizable investments by Mubadala (Piaggio Aero), KIA-FSI JV, QIA (St. Regis Hotel and DB branches)



Winners and losers

SWF Investments by Target Country in 2013 and 2014

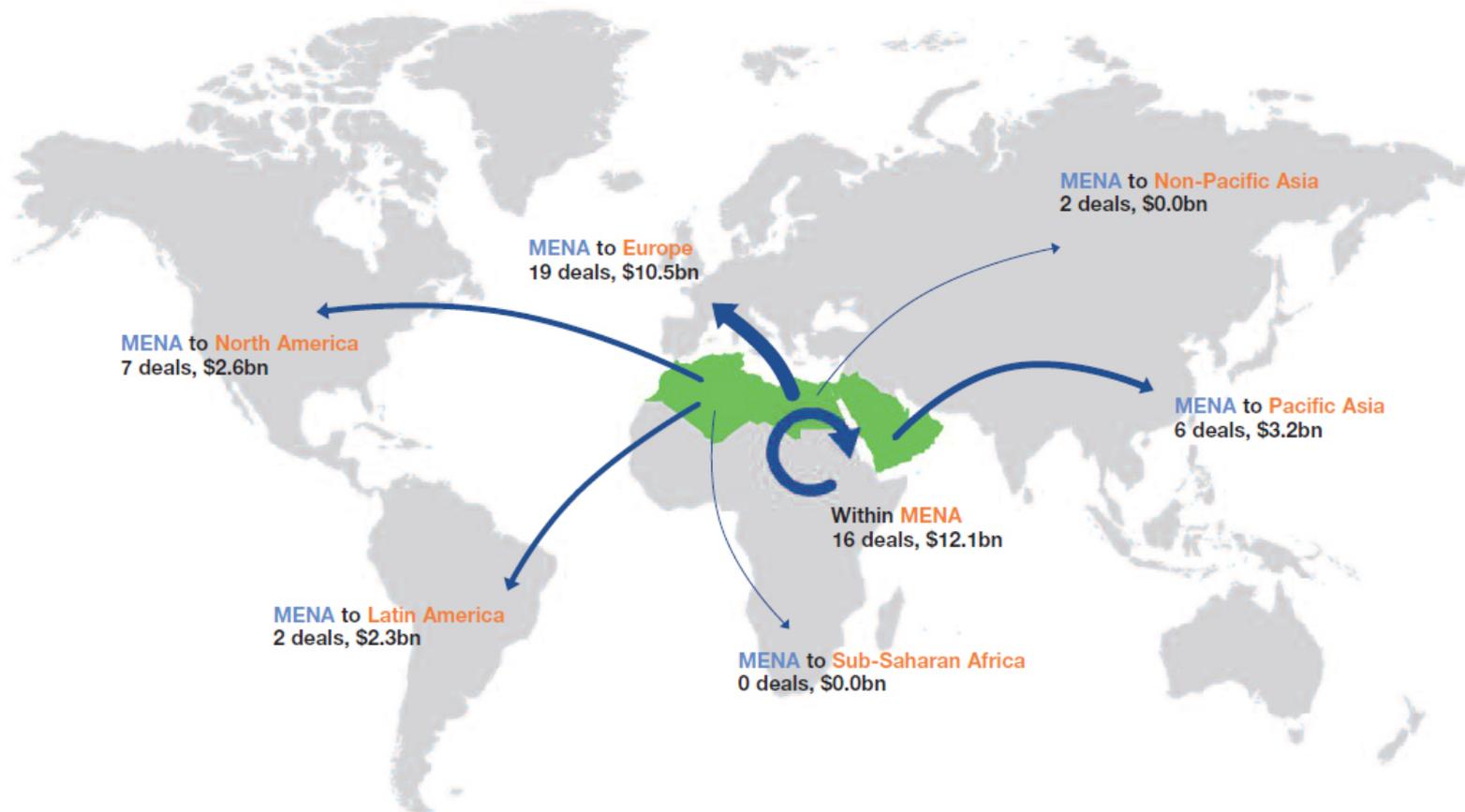


- USA and UK get additional \$13bn, doubling inflows. China recovers spectacularly
- Crisis hit Russia, and France biggest losers



Gulf's SWFs investments by region

Investment Flows from Middle East & North Africa SWFs 2014



- In 2014, Gulf's SWF invested **\$31bn**, of which **\$12bn** within the region
- Strong regional or domestic focus by QIA (acquiring Barwa RE) and by EIA (acquiring TLC operator Itissalat in Morocco)



Asian SWFs investments by region

Investment Flows from Asia-Pacific SWFs 2014

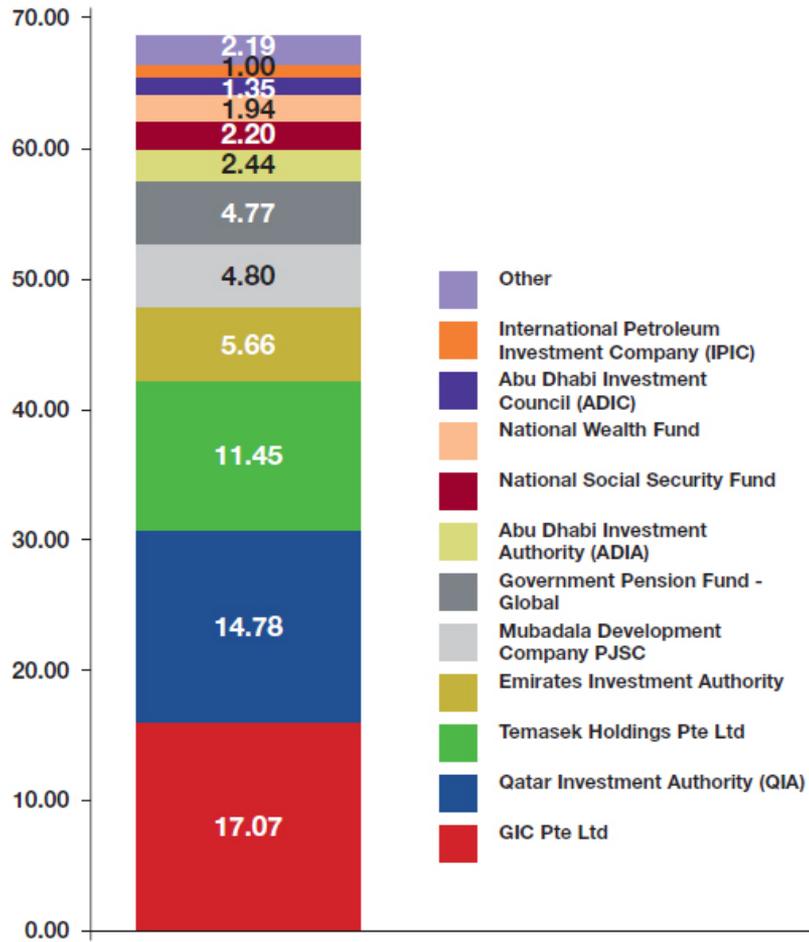


- In 2014, Asian SWFs invested **\$31bn**, of which **\$14bn** within the region
- Again, strong regional or domestic focus by China NSSF (acquiring CITIC Pacific) and by Temasek (acquiring Li Ka-Shing's AS Watson retailer)



The big spenders

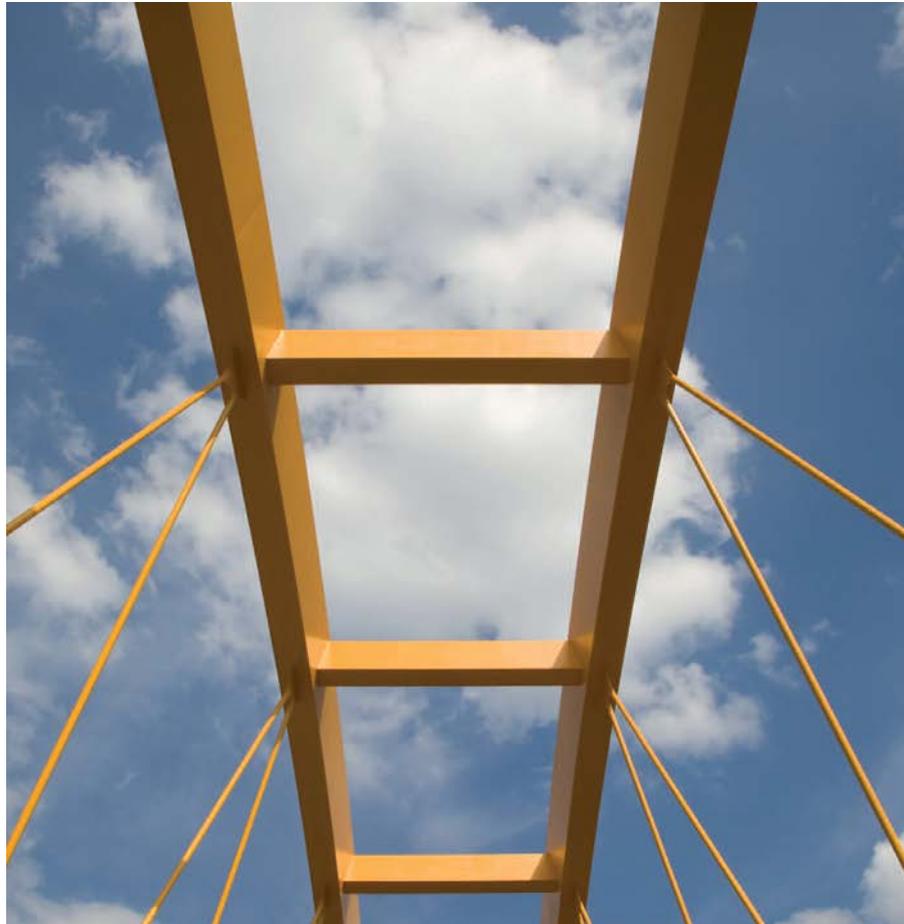
Value of Direct Investments by Top Spending SWFs, 2014



- Singaporean SWF stick out: Temasek and GIC lead ranking with equity investments worth **\$28bn**, stepping up deal size
- Changeover at QIA meant continuity: in 2014, **QIA is again top spender** with a 30 % share of investments
- of to Norway's GPFG enter the ranking due to (unusually) large RE deals



Towards a New Normal



Testing times for SWFs:

- Game-changes in the global economy are shaping SWF mission, behavior, and strategies
- In the quest for internal growth, we expect more equity, and more safe assets to capture illiquidity premia
- Governance will be key

Stay tuned...

Thank you

