



Follow the Money

HIGHLIGHTS OF THE SWF ANNUAL REPORT 2011

Bernardo Bortolotti

Paris, EconomiX, June 27, 2012

Sovereign
INVESTMENT LAB

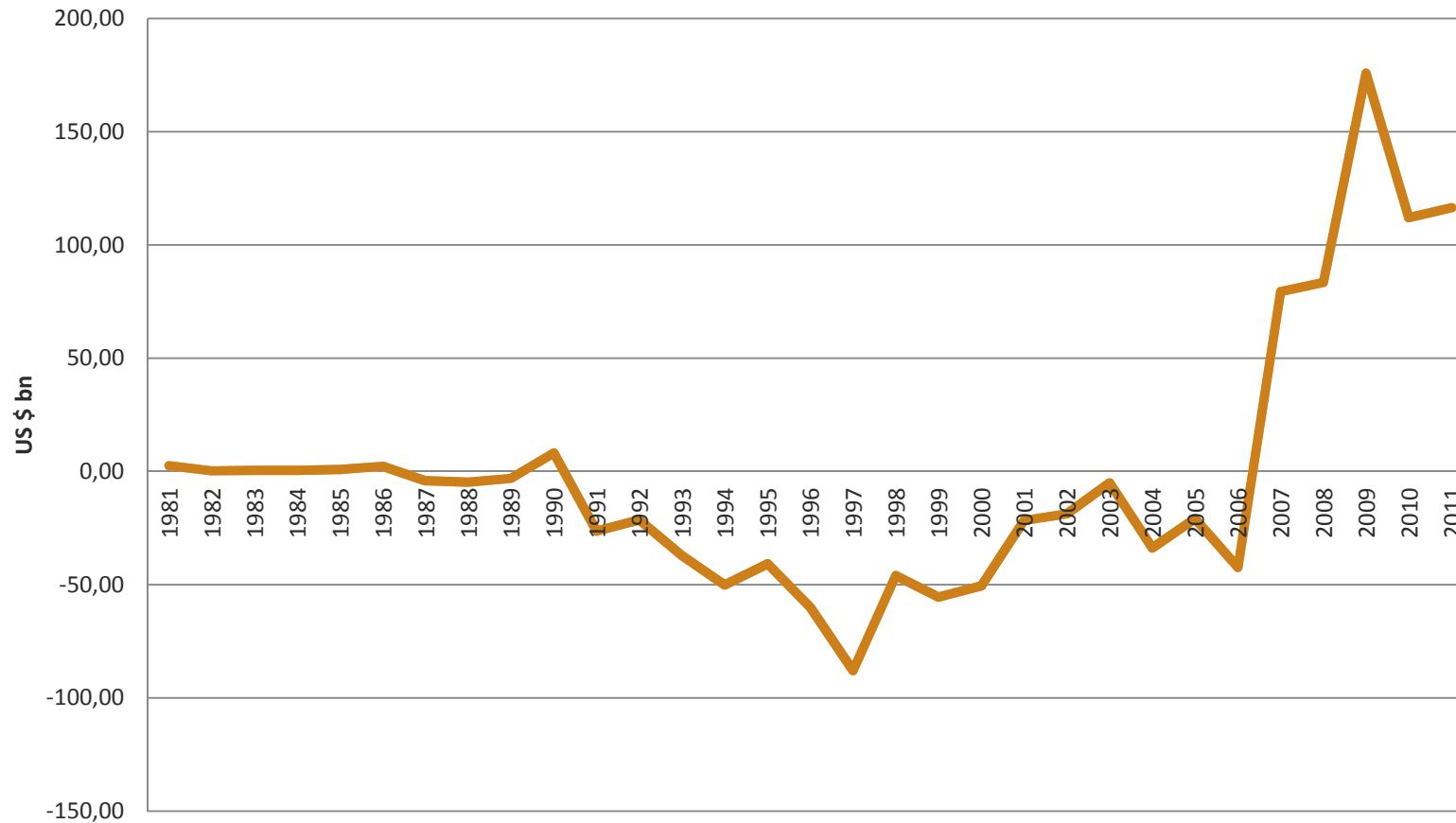


**Università Commerciale
Luigi Bocconi**

Paolo Baffi Centre
on Central Banking
and Financial Regulation

Leviathan Awakens...

Global State Acquisitions minus Privatizations



Source: *Sovereign Investment Lab, Privatization Barometer*



The Sovereign Investment Landscape

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

INVESTMENT RISK




Sovereign Wealth Funds AUM, 2011

COUNTRY	FUND NAME	INCEPTION YEAR	SOURCE OF FUNDS	AUM (US\$BN)
Norway	Government Pension Fund – Global	1990	Commodity (Oil)	582.9
UAE/Abu Dhabi	Abu Dhabi Investment Authority	1976	Commodity (Oil)	450†
China	China Investment Corporation	2007	Trade Surplus	374.3
Kuwait	Kuwait Investment Authority	1953	Commodity (Oil)	296†
Singapore	Government of Singapore Investment Corporation	1981	Trade Surplus	220†
Singapore	Temasek Holdings	1974	Government-Linked Companies	141.6
Qatar	Qatar Investment Authority	2005	Commodity (Oil & Gas)	135†
China	National Social Security Fund	2000	Trade Surplus	130*
Russia	National Wealth Fund	2008	Commodity (Oil)	89.8
Australia	Australian Future Fund	2006	Non-Commodity	76.5
Libya	Libyan Investment Authority	2006	Commodity (Oil)	64.2
Kazakhstan	Kazakhstan National Fund	2000	Commodity (Oil)	52.3
UAE/Abu Dhabi	International Petroleum Investment Company	1984	Commodity (Oil)	49
UAE/Abu Dhabi	Mubadala Development Company	2002	Commodity (Oil)	48.2
Republic of Korea	Korea Investment Corporation	2005	Trade Surplus	45
Brunei	Brunei Investment Agency	1983	Commodity (Oil)	39
Malaysia	Khazanah Nasional Berhad	1993	Government-Linked Companies	34.1



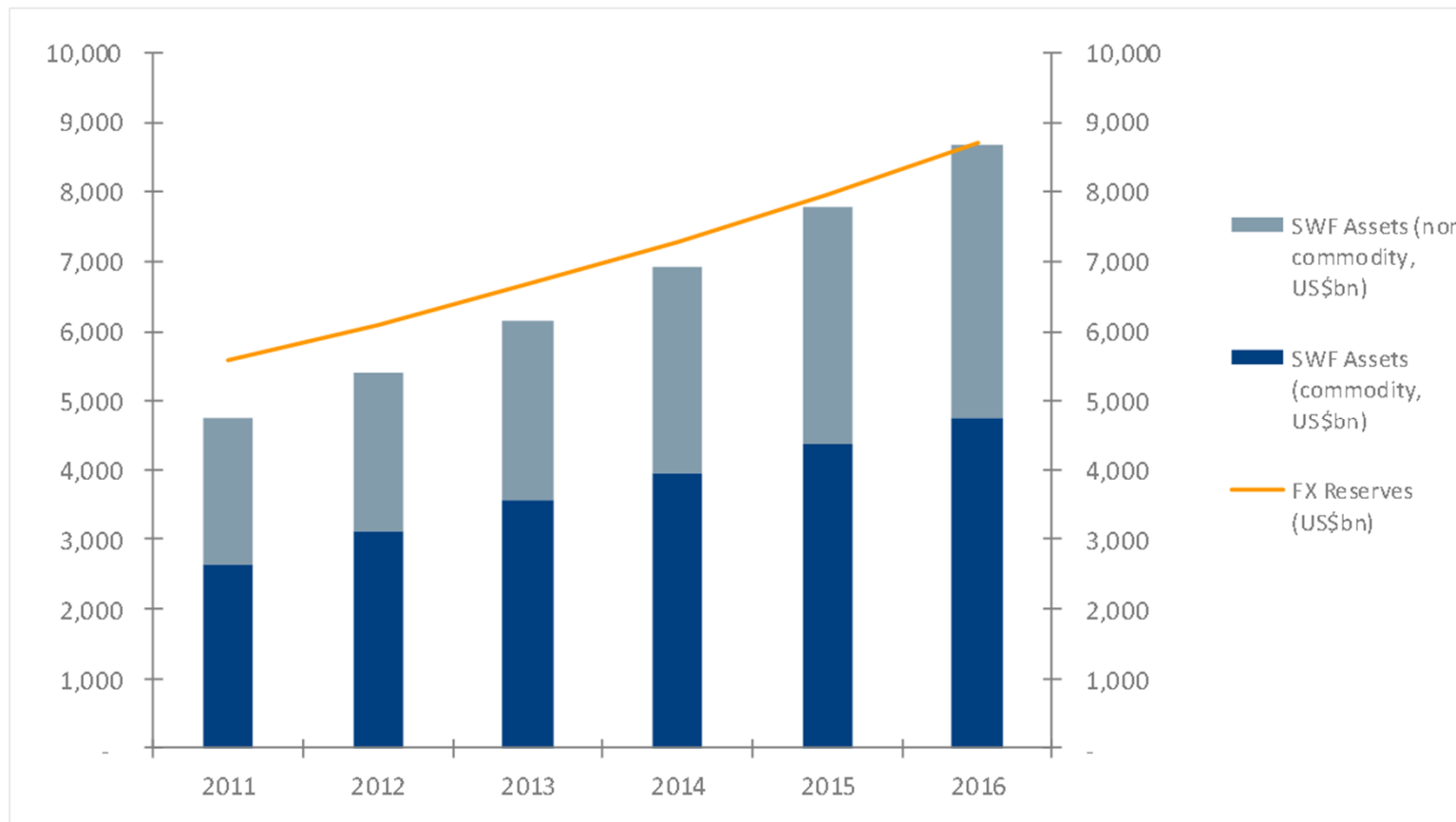
Sovereign Wealth Funds AUM, 2011 (cntd)

Azerbaijan	State Oil Fund of Azerbaijan (SOFAZ)	1999	Commodity (Oil)	29.8
Ireland	National Pension Reserve Fund	2001	Non-Commodity	18.9
New Zealand	New Zealand Superannuation Fund	2001	Non-Commodity	15.5
Bahrain	Bahrain Mumtalakat Holding Company	2006	Government-Linked Companies	13.5*
UAE	Emirates Investment Authority	2007	Commodity (Oil)	10†
UAE/Abu Dhabi	Abu Dhabi Investment Council	2007	Commodity (Oil)	10†
East Timor	Timor-Leste Petroleum Fund	2005	Commodity (Oil & Gas)	8.9
Oman	State General Reserve Fund	1980	Commodity (Oil & Gas)	8.2†
UAE/Ras Al Khaimah	Ras Al Khaimah (RAK) Investment Authority	2005	Government-Linked Companies	2.0†
Vietnam	State Capital Investment Corporation	2005	Government-Linked Companies	0.6
Kiribati	Revenue Equalization Reserve Fund	1956	Commodity (Phosphates)	0.5
São Tomé & Príncipe	National Oil Account	2004	Commodity (Oil)	0.0063
Oman	Oman Investment Fund	2006	Commodity (Oil & Gas)	Unknown
TOTAL OIL & GAS				1,873.31
TOTAL TRADE SURPLUS				769.30
TOTAL OTHER				303.20
TOTAL AUM				2,945.81

* Assets at End 2010 † Estimate
Source: Sovereign Investment Lab



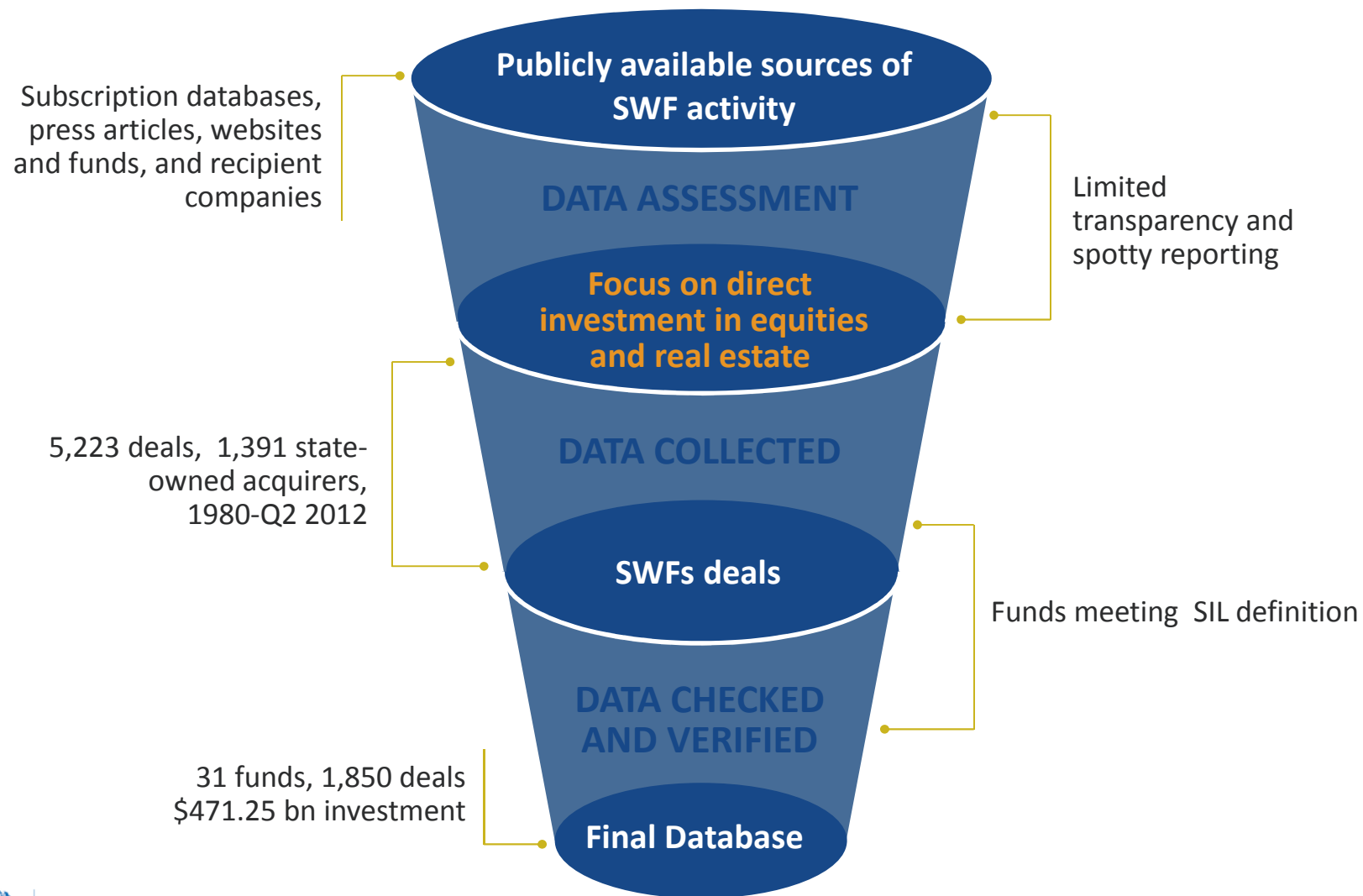
The Underlying Macroeconomic Factors



Source: *Castelli and Scacciavillani, 2012*

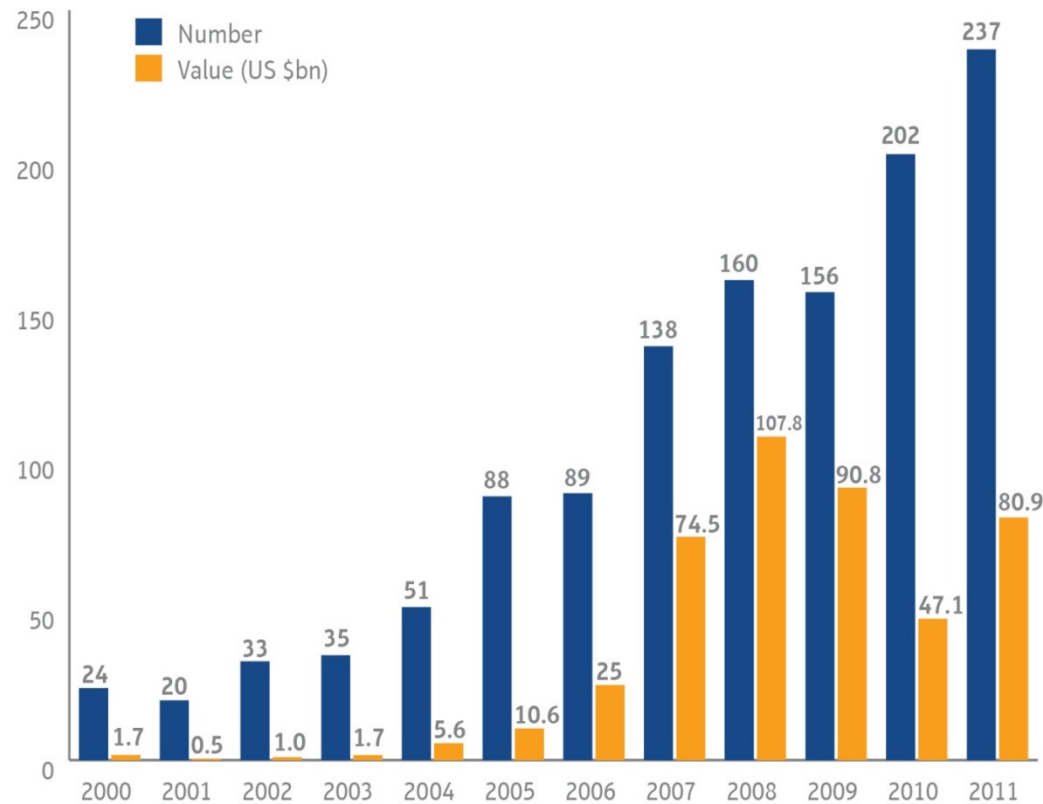


SWF Transaction Database Methodology



A Trend Picks Up...

Direct SWF Investments since 2000



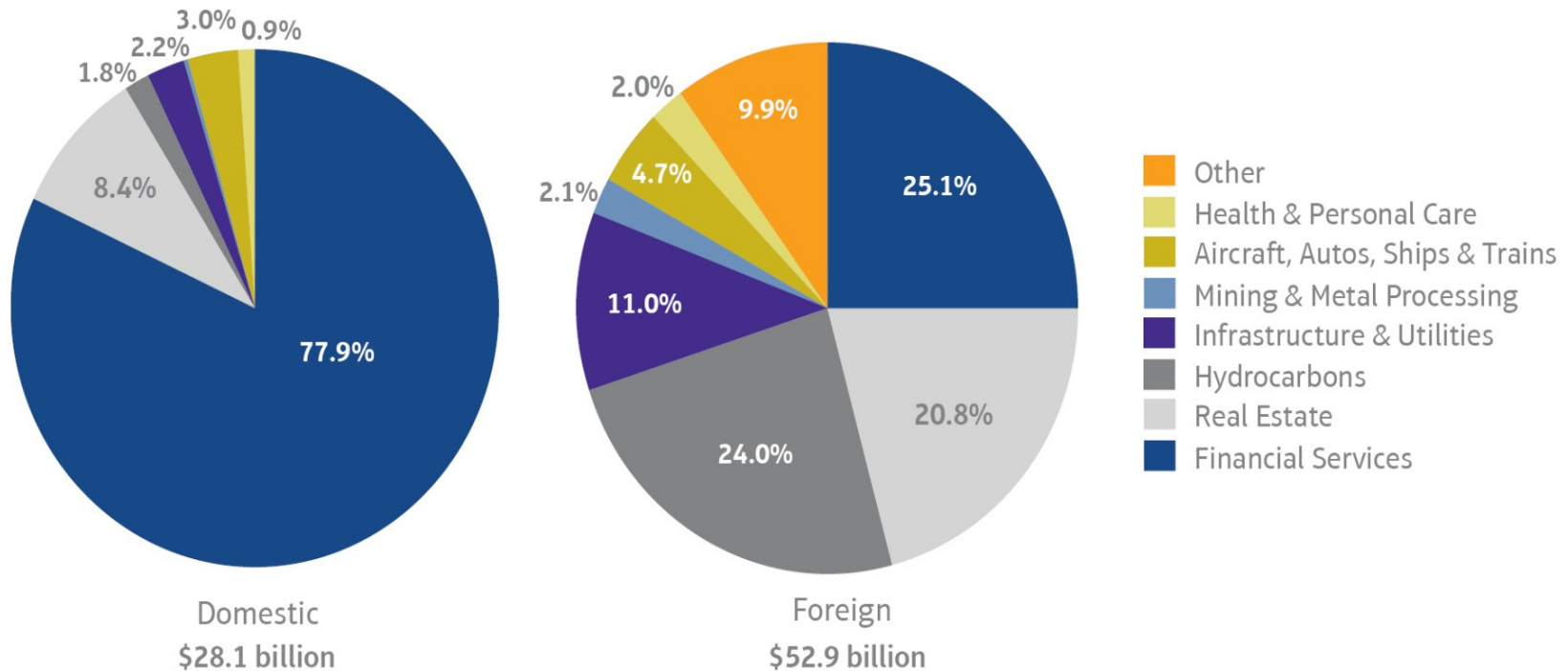
Publicly available data for direct SWF equity & real estate deals, joint ventures and capital injections.
Source: Sovereign Investment Lab, Università Bocconi

- 237 deals worth \$80.9bn in 2011
- 42 % and 17 % increase in value and number of deals since 2010



Back to 2008?

Domestic and Foreign Direct SWF Investments by Sectors, 2011



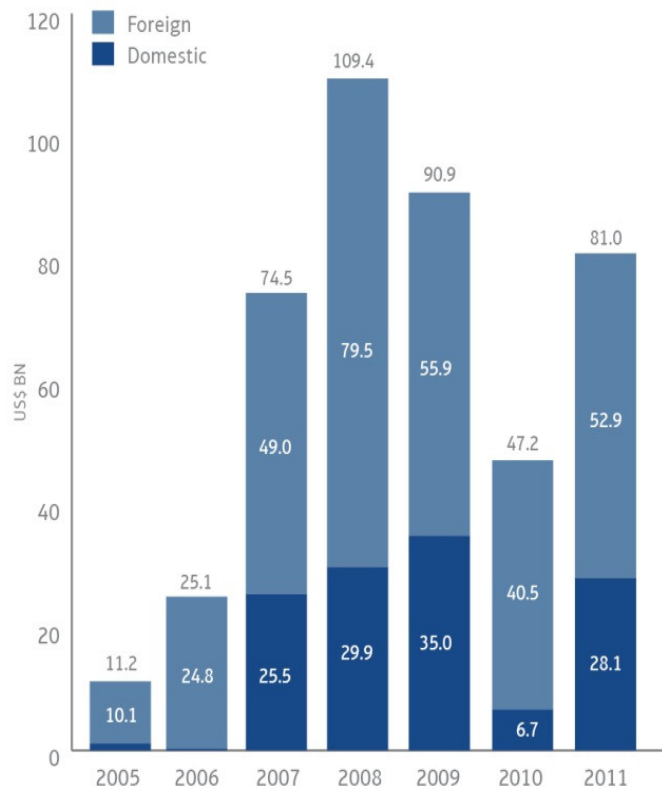
Publicly available data for direct SWF equity & real estate deals, joint ventures and capital injections.
Source: Sovereign Investment Lab, Università Bocconi

- \$32.2bn and 42 % of total investment in the financial sector
- Bank bailouts at home (Irish NPRF) and abroad (QIA – Credit Suisse)
- RE in “safe havens” and energy and infrastructure from Asian SWFs
- Barbarians at the gate? Politically sensitive sectors shunned



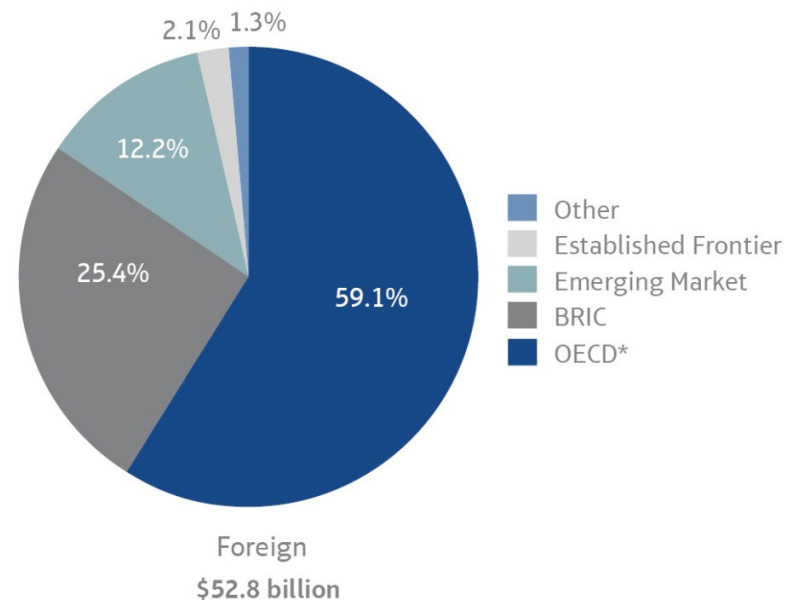
At home and abroad, with a twist...

Value of Domestic and Foreign Direct SWF Investments since 2005



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

Value of Foreign Direct SWF Investments by Target Market Type, 2011

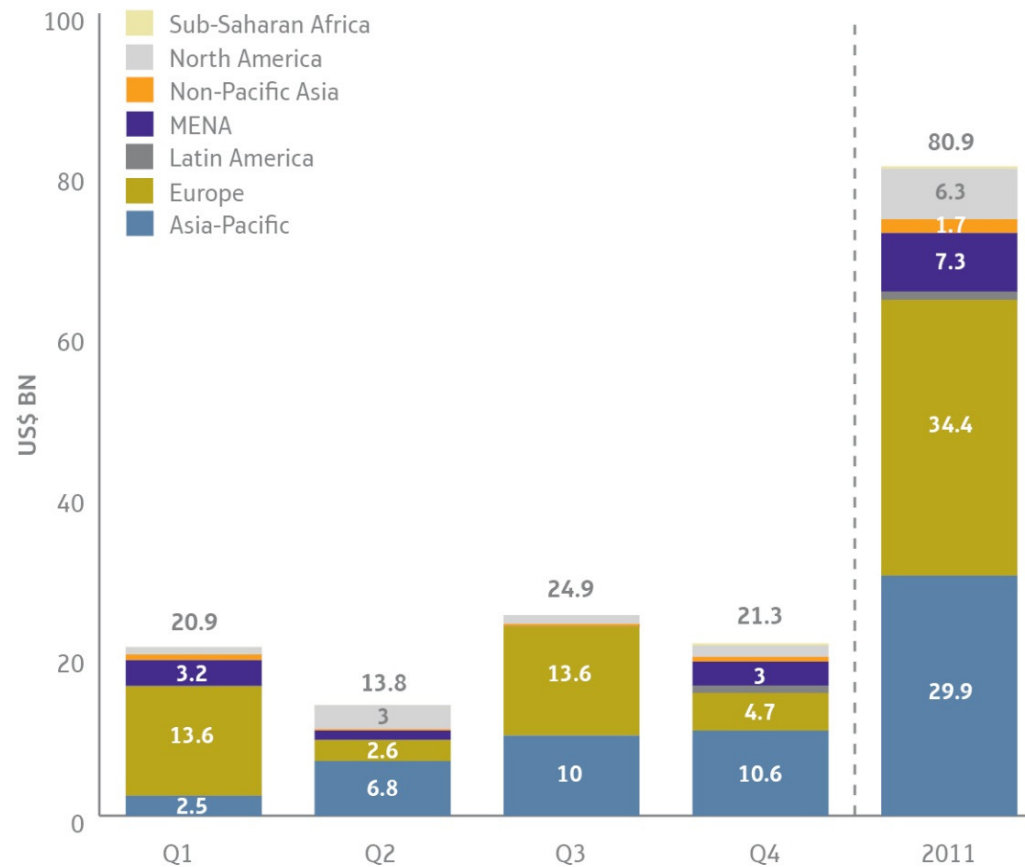


- OECD Investment focused in companies strongly exposed to EM growth: Iberian utilities with assets in LA, luxury retailers with growing markets in Asia
- Increasing share in new emerging markets



Against all odds, Europe...

Value of Direct SWF Investments by Target Region, 2011

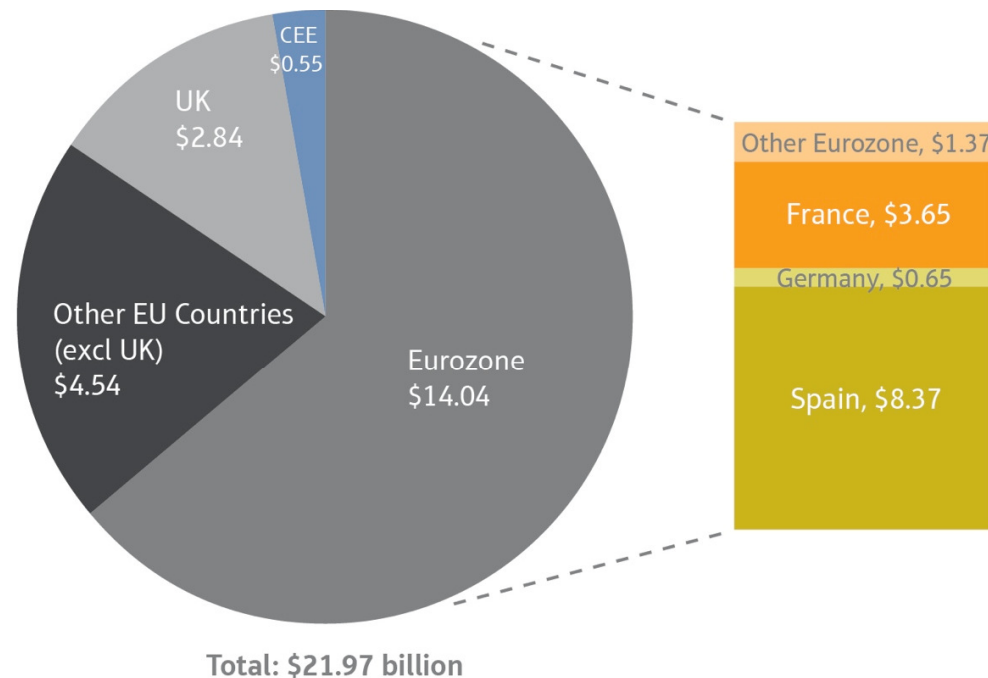


Publicly available data for direct SWF equity & real estate deals, joint ventures and capital injections.
Source: Sovereign Investment Lab, Università Bocconi



Against all odds, Europe...

Value of Foreign Direct SWF Investments in Europe, 2011



Publicly available data for direct SWF equity & real estate deals, joint ventures and capital injections

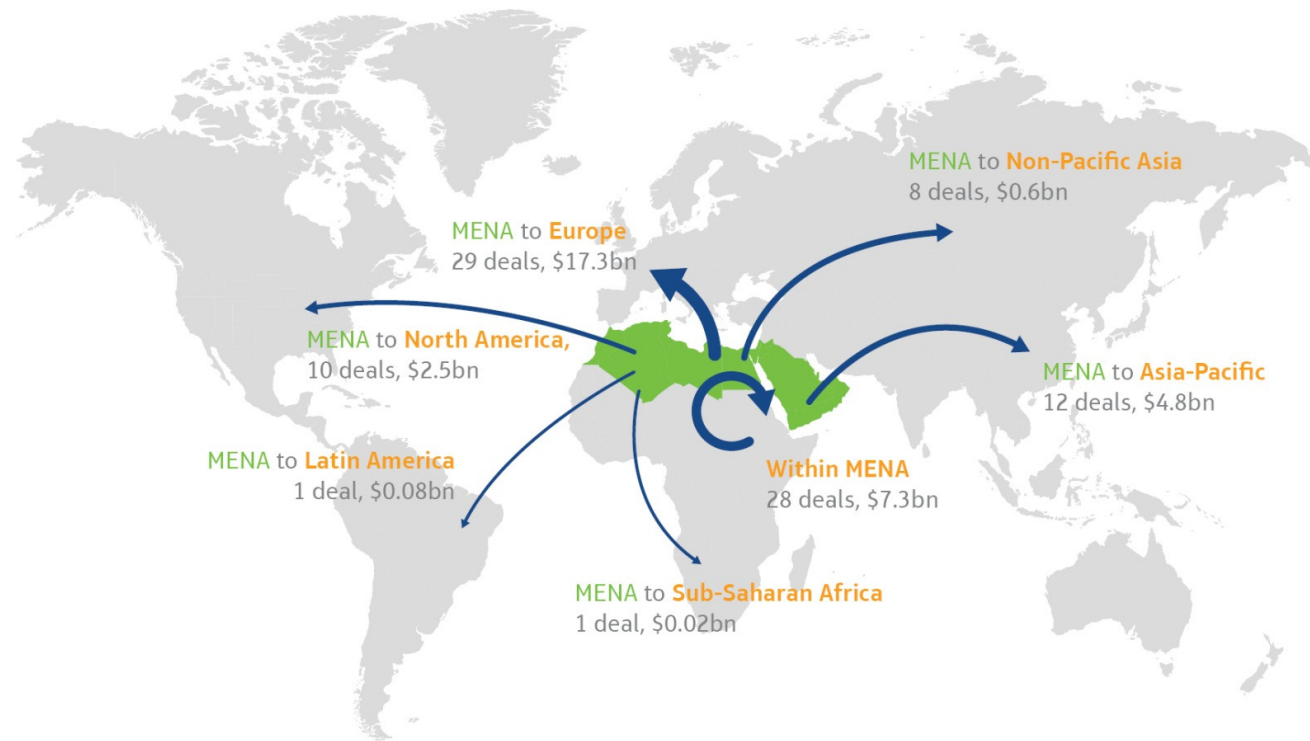
- In 2011, SWFs overweighted Europe, particularly EZ, relative to 2010
- Spain was the target country of choice: 25 % of total European deal value and 60 % in EZ
- Italy under the radar screen: one deal (LIA's open market purchase of Finmeccanica)



Crossing the Mediterranean Sea

Investment Flows from Middle East & North Africa SWFs, 2011

Figure 10: Investment Flows from Middle East & North Africa SWFs 2011



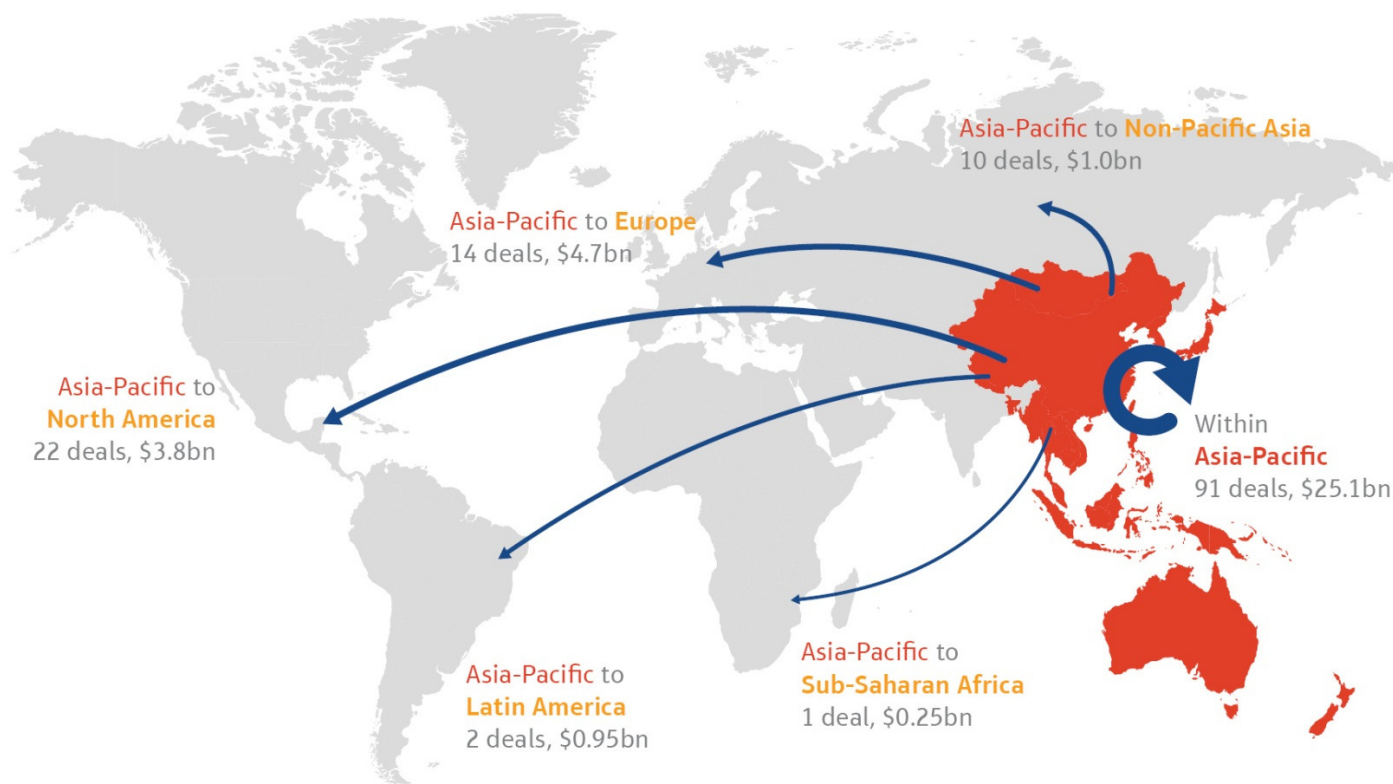
Publicly available data for direct SWF equity & real estate deals, joint ventures and capital injections.
Source: Sovereign Investment Lab, Università Bocconi



The Asian Home Bias

Investment Flows from Asia-Pacific SWFs, 2011

Figure 11: Investment Flows from Asia-Pacific SWFs 2011

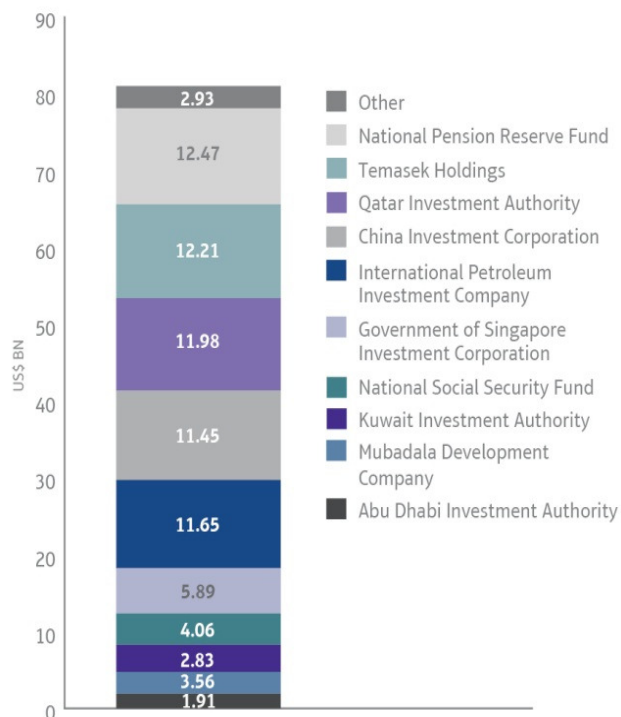


Publicly available data for direct SWF equity & real estate deals, joint ventures and capital injections.
Source: Sovereign Investment Lab, Università Bocconi



The Big Spenders

SWF Investment, 2011



Publicly available data for direct SWF equity & real estate deals, joint ventures and capital injections.

Source: Sovereign Investment Lab, Università Bocconi

SWF Deals over \$1bn, 2011

FUND	TARGET NAME	VALUE
National Pension Reserve Fund	Allied Irish Banks PLC	\$7.26 bn
National Pension Reserve Fund	Allied Irish Banks PLC	\$5.21 bn
International Petroleum Investment Company	Compañía Española de Petróleos, S.A. (CEPSA)	\$4.96 bn
China Investment Corporation	GDF Suez Exploration & Production SA	\$3.26 bn
China Investment Corporation	China Export and Credit Insurance Corporation	\$3.15 bn
Qatar Investment Authority	Credit Suisse AG	\$3.1 bn
Temasek Holdings	China Construction Bank Ltd	\$2.8 bn
Qatar Investment Authority	Iberdrola SA	\$2.7 bn
Temasek Holdings	Festival Walk Mall, Hong Kong	\$2.4 bn
Temasek Holdings	China Construction Bank Ltd	\$2.2 bn
International Petroleum Investment Company	RHB Capital Bhd	\$1.9 bn
China Investment Corporation	China Construction Bank Ltd	\$1.75 bn
International Petroleum Investment Company	Mercedes-Benz Grand Prix Ltd	\$1.7 bn



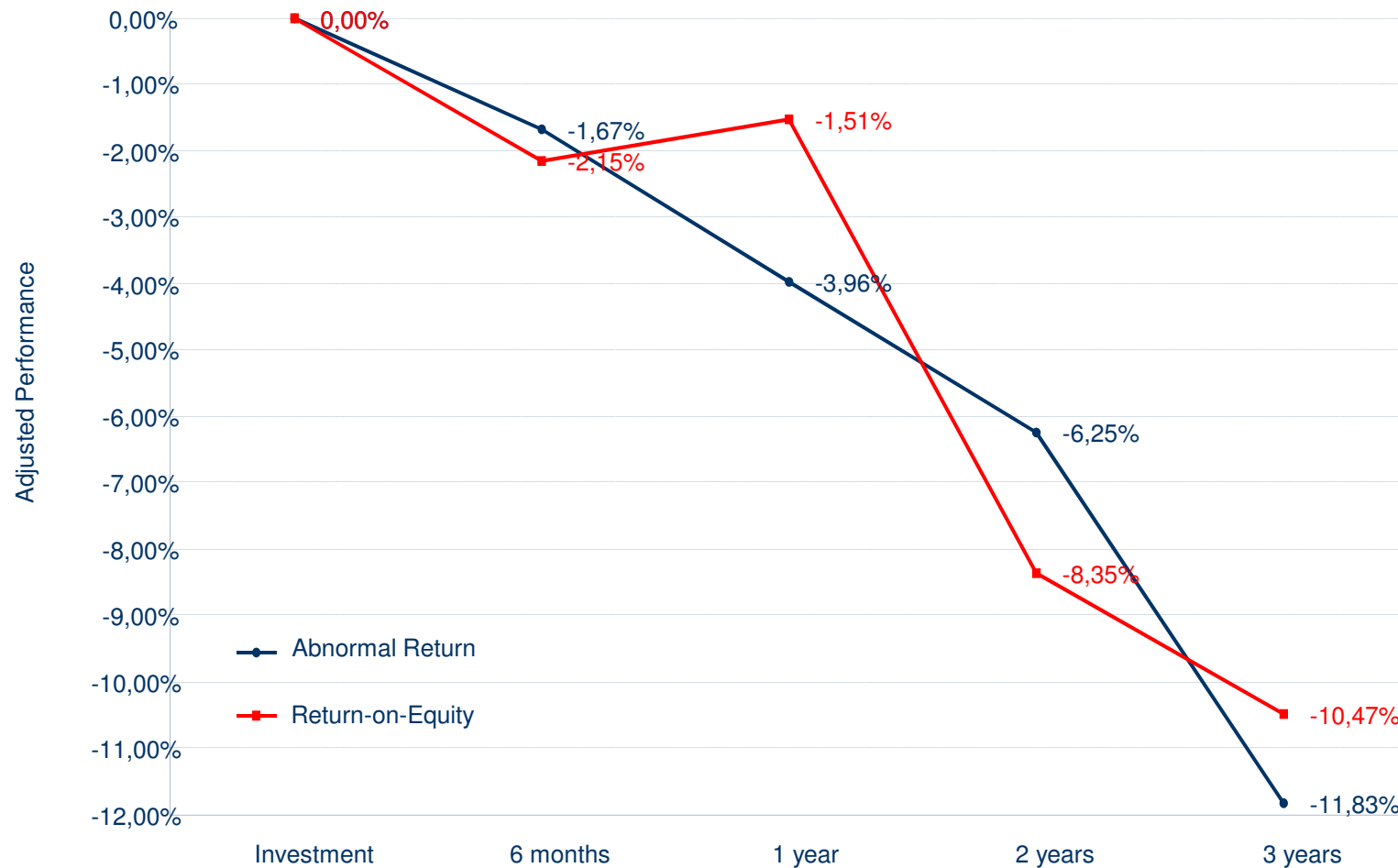
Challenges



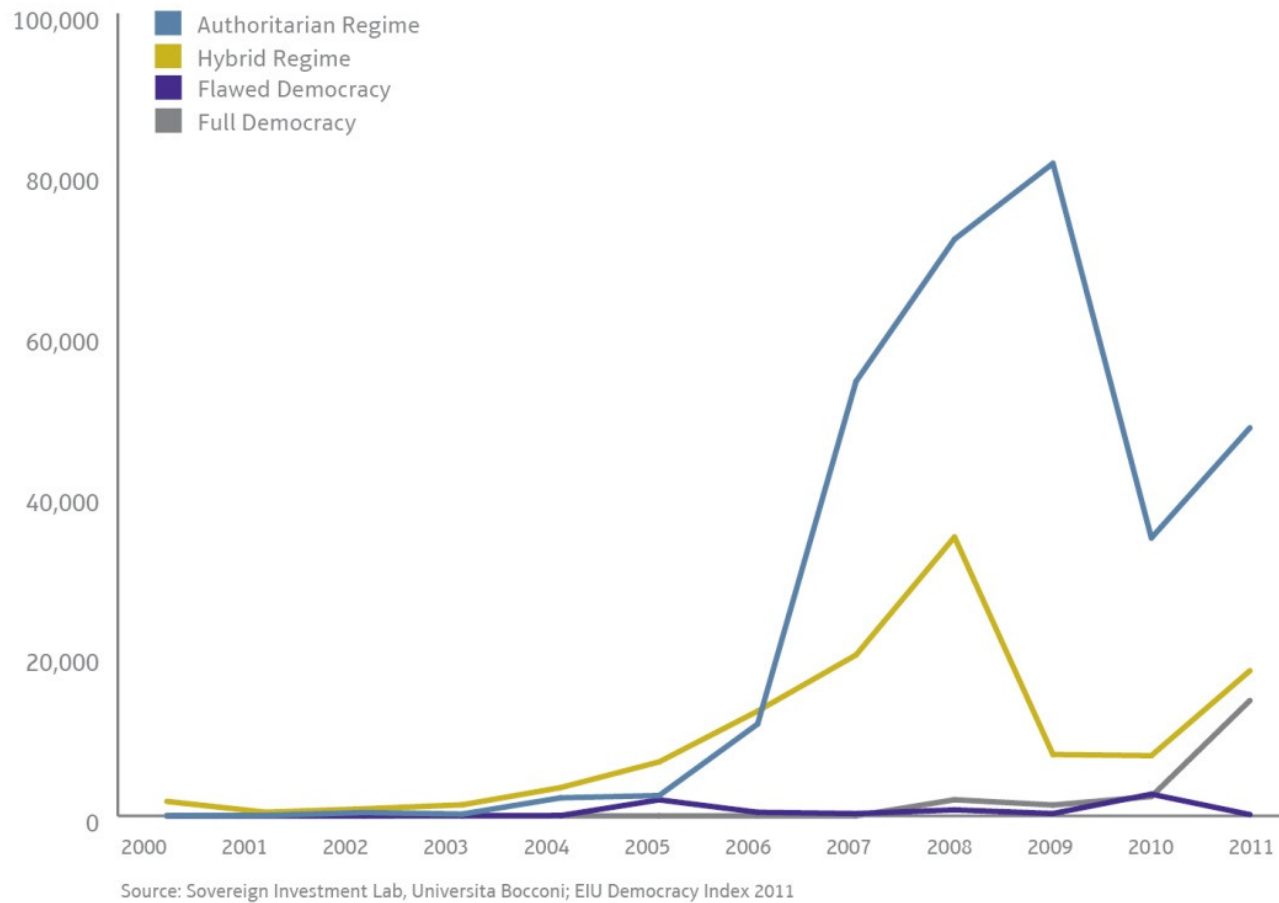
SWFs ideally placed to harvest LT risk premia, but:

- mandates highly incomplete contracts subject to political interference
- absentee landlord effect and the corporate governance dilemma
- legitimacy of sovereign ownership in undemocratic countries

The Financial Performance of SWF Targets



SWF Investment by Political Regime



Thank you



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