Executive Summary

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Navigating Market Shoals in Turbulent Geopolitical Waters: Sovereign Direct Investments in 2016-17

The SWFs investment pattern in 2016 and 2017 suggests a cautious extension of prevailing themes and strategies that have predominated in the years following the Great Recession and – among oil exporters – since the stark correction in oil and gas prices. For sovereign investors, specifically, these two years have been characterized by a heightened degree of political change and uncertainty, particularly in developed economies – the US, the UK, and Europe – and beyond. All serve to complicate sovereign investment processes that are focused on the deployment of large amounts of capital in real or otherwise illiquid assets across extended investment horizons.

By investment deals, the period of 2016 and the first half of 2017 was led again by Singaporean funds, GIC and Temasek, due to their strong leadership in venture capital deals. Beyond these, the Abu Dhabi Investment Authority, Qatar Investment Authority, Ireland Strategic Investment Fund, and the China Investment Corp, form a core group of active SWFs who together represent over 72% of acquisition count in 2016, rising to 77% in the first half of 2017.

By sectors, real estate (23.9%), technology (26.1%), and finance (17%) have continued to attract dominant interest in 2017. Once again, deals were distributed across established geographies, predominantly the US, India, UK, China, Singapore and Australia, which together represent over 76% of total first half 2017 purchases.

The predominant themes that emerge from the transaction analysis are investor concentration, large-scale execution, and deal partnering.

China: Less Growth, More Sovereign Funds

Hard landing scenario for China looks now quite improbable, yet the deleveraging process will dent China's growth in the short term while aging and the very low return on assets will do the rest in the medium term. Potential growth in China should be around 5%, which - however- will not prevent China from acquiring more foreign assets abroad. On the contrary, the increasingly large accumulation of foreign assets – as rapid reversal of the current account surplus is not forecasted – coupled with a low return on domestic assets, should push China to invest abroad at a rapid pace as the stock of outbound-FDI continues to be low compared to US or Europe.

Thus, it would not be surprising to continue seeing more activity from the six Chinese sovereign wealth funds in operation which total north to US$2 trillion in assets under management. Moreover, these SWFs are not subject to the limitations and restrictions imposed on capital controls. Thus, Chinese SWFs are to lead a new foreign direct investment push in the Belt and Road Initiative's countries and Europe. Indeed, real estate and infrastructure companies operating in Europe or Australia, are preferred destinations to Chinese SWFs. Indeed, the largest SWF deal of 2017 was the acquisition made by the China Investment Corporation of Logicor, a pan-European logistics company, worth nearly US$14 billion.

Saudi Arabia's Bold Vision for its Sovereign Wealth

The Saudi Vision 2030 centerpiece is the creation of the world's largest sovereign wealth fund, whose returns will replace oil income as the Saudi government's main revenue source. This colossal new fund is to be formed through the conversion of Saudi's existing, mainly domestic PIF into a US$2 trillion global investor. Fresh capital for the augmented PIF is to come from listing up to 5 percent of Saudi Aramco, the Kingdom's national oil company and the world's biggest oil producer, with the remainder of Aramco's shares transferred to the PIF in the form of equity.
In the past year, the Public Investment Fund (PIF) has grabbed headlines with the announcement of multi-billion mega-partnerships, creating two of the largest private equity vehicles in history. The Saudi fund committed US$2 billion to an infrastructure-investment fund with Blackstone Group and as much as US$45 billion in a technology fund, the Vision Fund, run by SoftBank, the Japanese telecom group.

Already though, this vision is at a very early stage and will shape the evolution of PIF. Domestically, Vision 2030 deals with austerity measures and it shows the difficulty, at home, to slim down the Saudi state and rein in public sector spending in times of low oil prices. On the international front, there is speculation on Aramco's proposed listing, initially set for 2018.

Trading Skyscrapers for Warehouses: SWFs Embrace Spectrum of Real Estate Assets in Search for Yield

SWFs will continue to diversify away from traditional markets and seek more nuanced, long-term investments in niche subsectors of the real estate market. In 2016 and 2017, the biggest real estate deals executed by sovereign wealth funds were not for a luxury hotel or landmark skyscraper in London, New York or Paris — they were multibillion-dollar bids for strings of commercial warehouses scattered across the hinterlands of Europe. GIC acquired P3 Logistics Parks (US$2.5 billion) in the waning days of December 2016 and, only six months later, CIC bought Logicor (US$14 billion) in the largest real estate deal ever recorded from a single SWF.

Political uncertainty and opposition in developed markets may cool their interest, but, in all likelihood, SWFs will continue to rebalance their portfolios as they embrace secular trends and seek to participate more closely in the lifecycles of real estate developments and infrastructure projects.

Sovereign Wealth Funds: Sustainable and active investors? The case of Norway

There is a growing interest on the role played by large institutional investors to support sustainable finance and to act as responsible owners. SWFs, as long-term investors, are adapting themselves to investment strategies and risk management tools aligned with both responsible ownership and sustainable economic growth.

Beyond regulation and risk management tools, SWFs may exert a strong impact in the green economy by integrating climate-related criteria in their strategic asset allocation. So far, only few SWFs, Norway and New Zealand are salient cases, have integrated systematic investment climate-related strategies. Portfolio decarbonization, commitments to green infrastructure and agricultural funds or investments in renewable energy companies—in which Mubadala stands as a clear leader—are the main paths used by SWFs to support the transition towards a low-carbon economy.

Yet, there is ample space for further actions, as the SWFs investments in green assets still represents a mere 1% of total SWFs assets.

SWFs are not only worried about sustainable development strategies but increasingly playing a role as long-term responsible owners. The case of Norway illustrates how an active shareholder, through consistent "voice and exit" strategies, may add value enhancing the corporate governance of its portfolio companies. Others may follow.

Sovereign Wealth Funds in Spain 2017: New Players and Target Industries

The Spanish economy is going through an expansive economic cycle characterized by a high rate of growth above European Union average and a PE&VC investment record in the country. In this context, in late 2016 and 2017 major SWFs operations of high strategic value took place to target new areas and activities, including finance (GIC and Hellman & Friedman over Allfunds Bank), energy (Abu Dhabi Investment Corporation over Naturgás) and manufacturing (Dubai Ports World over Reyser, which provides services at 12 Spanish ports, and the Oman SGRF over company Escribano Mechanical and Engineering).

Nowadays hardly any investment area or strategy can be deemed to be outside the purview of SWFs in Spain. Such funds accumulate investments for an amount of €36.4 billion, including both corporate and sovereign fixed-income investments. Although the presence of SWFs is a recent phenomenon and these transactions were practically nonexistent before 2010, Spain is already one of the priority European targets for SWFs.