

Monitor Group and Fondazione Eni Enrico Mattei Release First Joint Annual Report on Sovereign Wealth Funds

Comprehensive Report on 2008 Investments Finds that the Global Economic Crisis Led to More than \$55 Billion in Paper Losses for Sovereign Wealth Funds

Milan, May 21 2009 – The Fondazione Eni Enrico Mattei (FEEM) and Monitor Group, one of the world’s leading advisory and consulting firms, today released, *“Weathering the Storm: Sovereign Wealth Funds in the Global Economic Crisis of 2008”* a new annual report analyzing the effects of the global economic crisis on the behaviors and financial transactions of sovereign wealth funds (SWFs).

“Despite the dramatic role that SWFs have played in the international economy, there is a great deal of misunderstanding surrounding them,” said William Miracky, a senior partner at Monitor Group. *“This report shows that SWFs still remained important sources of liquidity and economic investment, even as they substantially revised their investment strategies during the economic crisis.”*

To address the need for mutual sharing of data around SWFs, Monitor and FEEM partnered to create one of the largest and most comprehensive databases on global SWF deals. *“The public firestorm on SWF ignited with limited information about what they really are and how they operate. This is the gap that we tried to fill with this strategic partnership,”* said Bernardo Bortolotti, the executive director of FEEM. *“Our analyses suggest that in the future SWF will prefer investing for long term sustainability rather than higher risk-adjusted return”.*

Drawing on its analysis of SWF transactions over the course of 2008, the report concludes that the global economic crisis has manifested a profound effect on investment strategy. Key findings include:

- Despite the crisis, the volume of investment activity remained substantial, though the total dollar value of SWF deals declined later in the year, dropping from \$67.8 billion in Q1 of 2008 to \$35.1 billion in Q4.

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- During the crisis, SWFs lost at least \$55.8 billion on paper from their initial investments. This performance is driven primarily by their large exposure to the financial services sector, but also likely due to unfortunate stock picking or a tendency to invest in distressed industries as a way to minimize political or PR opposition.
- Nonetheless, and despite representing a declining share of overall deal activity, the financial services sector continued to be an important target for SWF investment. In 2008, it accounted for 28 percent of the deals, worth 75 percent of the total value (\$96.2 billion).
- As the year progressed and the economic crisis spread, many funds importantly shifted their investment strategies, retreating from distant markets and increasing domestic and regional investments, particularly in emerging markets. In Q4 of 2008, as funds sought to prop up local economies, domestic investment by SWFs made up over 40% of all deals, the highest level since 2002. In the same quarter emerging markets investments amounted to over 70% of SWF deal value for the first time since 2004.

Sovereign Wealth Funds Defined

In addition, a lack of clarity and consensus around what defines a SWF prompted Monitor and FEEM to formulate a global definition to structure discussion and research. Monitor and FEEM define a SWF on the basis of the essential characteristics that differentiate them from other government-owned investment vehicles. Specifically, a SWF must meet the following five criteria:

1. It is owned directly by a sovereign government
2. It is managed independently of other state financial institutions
3. It does not have predominant explicit pension obligations

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4. It invests in a diverse set of financial asset classes in pursuit of commercial returns
5. It has made a significant proportion of its publicly-reported investments internationally

The 2008 annual report also includes exclusive content from Monitor's team of renowned international experts and Andrew Rozanov, who is credited with coining the term, "Sovereign Wealth Funds." The data compiled covers over 1,150 deals from 17 funds in 11 different countries, for the period between January 1, 1981 and December 31, 2008. At present, 31 funds, from 23 nations meet Monitor and FEEM's criteria of a SWF.

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