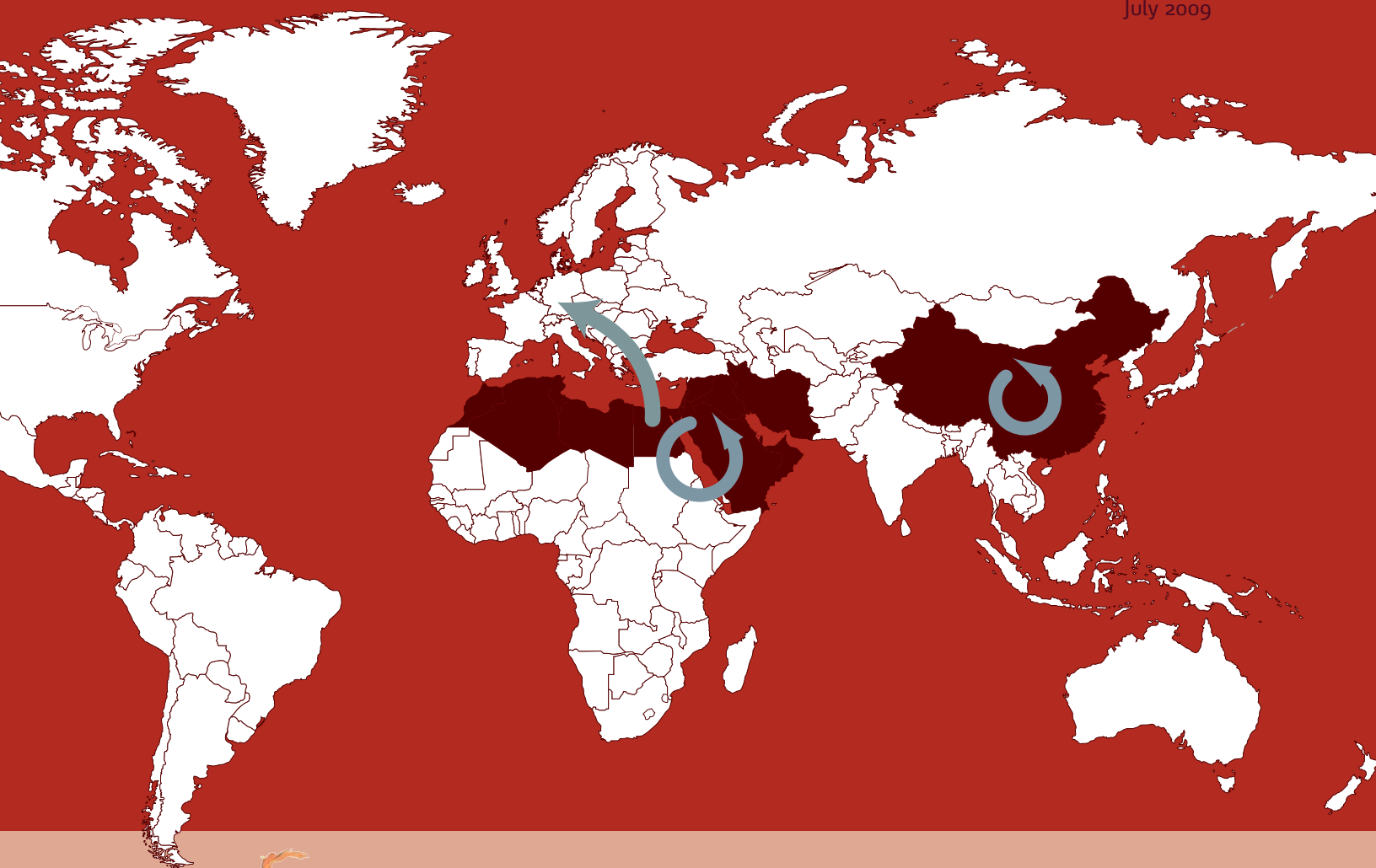


# Sovereign Wealth Fund Investment Behavior

*ANALYSIS OF SOVEREIGN WEALTH FUND  
TRANSACTIONS DURING Q1 2009*

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SOVEREIGN WEALTH FUNDS INVESTED ACROSS  
THE GLOBE IN THE FIRST QUARTER OF 2009

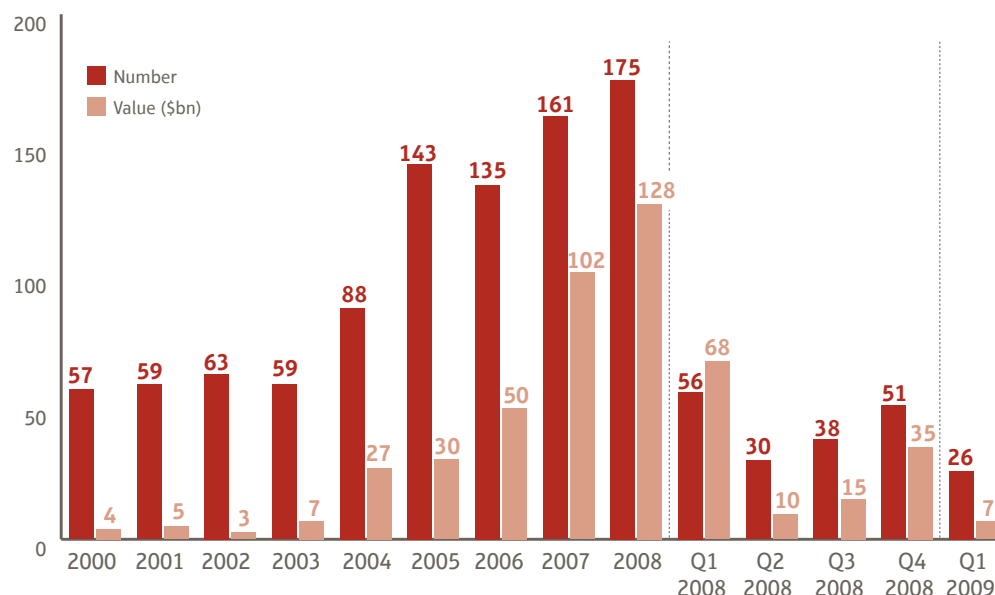
# Overview

During the first quarter of 2009, sovereign wealth funds (SWFs) made 26 investments with a total value of \$6.8 billion: the lowest expenditure of any quarter since the last of 2005. This is unsurprising given the current economic and financial climate. Coupled with slowing income from plummeting oil prices and contracting global trade in 2008, the volatile investment climate has made SWFs more risk averse. Therefore, during Q1 2009 they continued to be cautious actors in the global economy, scaling back their acquisitions to reflect their perception of increased market risk. This was exacerbated by SWFs suffering mark-to-market losses of an estimated \$67 billion on their investments in publicly-listed companies by the end of Q1 2009,<sup>1</sup> and some SWFs—notably the Qatar Investment Authority (QIA) and the Kuwait Investment Authority (KIA)—being required to bail out their countries' faltering financial service sectors.

Q1 2009 had the lowest  
SWF expenditure of any  
quarter since Q4 2005.

<sup>1</sup> Veljko Fotak, Bill Megginson, Hui Li, "Sovereign Wealth Fund Losses in Listed Firm Stock Investments" in *Weathering the Storm: Sovereign Wealth Funds in the Global Economic Crisis of 2008*, ed. William Miracky, Bernardo Bortolotti (Monitor Group, Cambridge M.A.: 2009).

Figure 1: Publicly Reported SWF Transactions since 2000 by Number and Value



Note: Publicly available data for SWF equity & real estate deals, joint ventures and capital injections  
Source: Monitor-FEEM SWF Transaction Database

Some of these recapitalizations announced in late 2008 spilled over into the New Year, but new transactions appear to suggest that SWFs are beginning to look

**Transactions in Q1 2009 appear to suggest that SWFs are once more beginning to scout for opportunities abroad.**

abroad to find lucrative investments once more. As we noted in a recent report,<sup>2</sup> retreat cannot be a long-term strategy for SWFs; it would be short-sighted for them to forego opportunities when they have available cash. The current environment offers abundant opportunities for patient investors with cash to pursue the ancient advice to “buy low, sell high.” This seems to have been particularly heeded by funds from Abu Dhabi who have looked to invest strategically to further the emirate’s long term economic objectives.

<sup>2</sup> Victoria Barbary, Edward Chin, *Testing Time: Sovereign Wealth Funds In the Middle East and North Africa and the Global Financial Crisis*, (Monitor Group, Cambridge M.A.: 2009).

Although SWF investment continued at a lower level (both in terms of volume and value) in Q1 2009, transactions have been diverse by geography and sector, and the focus on financial services remains. Funds made investments in sectors from automotives to IT, financial services to consumer goods, in countries as diverse as Columbia, Germany and Thailand. These patterns point to SWFs beginning to return to a long-term approach to their investments, putting their losses behind them and resuming the business of investing abroad, albeit at a cautious pace.

## Highlights

- 1 In Q1 2009, SWFs completed 26 investments, valued at \$6.8 billion, their lowest quarterly expenditure since Q4 2005.
- 2 This is a substantial drop both in number and value from the previous quarter: just over half the number of deals, and less than 20 percent of the total expenditure.
- 3 In Q1 2009 there were signs that the trend towards funds investing at home is beginning to turn around, and they are once more beginning to show interest in OECD economies. Over a third of the deals representing nearly two thirds of the total reported value were in the OECD, compared to only 27 percent of total deal value in Q4 2008.
- 4 The four SWFs from Abu Dhabi were the most active during Q1 2009, accounting for 12 out of the 26 deals, and making up almost three quarters of the total reported investment value.

## THE INTERNATIONAL PETROLEUM INVESTMENT COMPANY

To date, the Monitor-FEEM SWF Transaction Database has not included deals by the International Petroleum Investment Company (IPIC). The company was established in 1984 to invest in oil-related ventures outside Abu Dhabi as a joint creation of the Abu Dhabi Investment Authority (ADIA) and Abu Dhabi National Oil Company (ADNOC). It is now an independent company “wholly owned by the Government of Abu Dhabi” and has a portfolio of \$14 billion. Until recently, IPIC had invested solely in energy and petrochemicals in Europe, Japan, Taiwan and Korea.

However, the purchase of a controlling stake in Aabar Investments in March 2008<sup>1</sup> has gradually brought about a change in IPIC’s investment strategy. Instead of simply investing in a narrow range of sectors, which would exclude it from our definition of a SWF, Aabar was purchased with the specific aim of diversifying IPIC’s investments away

from the energy sector.<sup>2</sup> As such, Aabar was the vehicle IPIC chose to purchase a 9.09 percent stake in German carmaker Daimler AG for \$2.7 billion, \$1.3 million of land for development on Abu Dhabi’s Al Reem Island, and a \$63 million stake in Italian bank UniCredit in Q1 2009. Meanwhile IPIC itself has also been branching out, buying a 70 percent stake of German industrial services provider, MAN Ferrostaal, in March.

This change in behaviour certainly suggests that IPIC has started to act like a SWF, and we have included it as such in this quarter for the first time. It appears to be more in the mold of Mubadala than a “traditional” SWF—that is, it is playing a strategic role in Abu Dhabi’s wide-ranging economic transformation, part of which is structuring a portfolio of core investment holdings that are integrated and connected with Abu Dhabi’s economy and development strategy.

<sup>1</sup> This stake was bought as a bond and was converted to full majority ownership in March 2009.

<sup>2</sup> Chris Stanton, “IPIC assumes majority ownership of Aabar”, *The National*, March 23, 2009.

Nevertheless, there is still a question mark hanging over IPIC's status as a SWF. An interesting question is whether it will continue to act like a SWF. It received the share of Barclays purchased by Sheikh Mansour bin Zayed Al Nahyan, the Minister of Presidential Affairs and Chairman of IPIC, in October 2008. Despite its announcement that it wished to use Aabar to diversify its holdings, IPIC divested itself of the Barclays shares in June saying that the move reflected "the focus of IPIC's long-term investment strategy on hydrocarbon-related opportunities."<sup>3</sup>

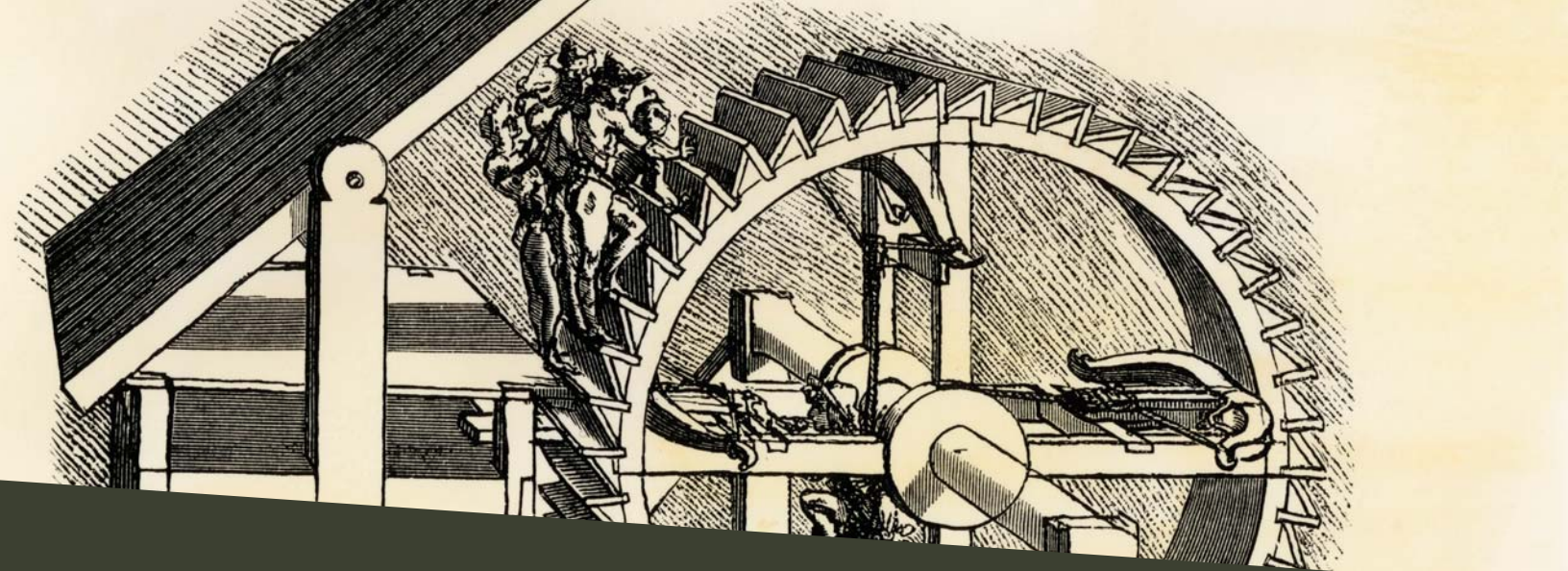
Whatever IPIC's long term strategy, in this update, we have decided to include it to reflect the constantly shifting and evolving SWF landscape. SWFs are no longer simply pots of financial surplus to be invested in foreign stocks and bonds; they have become more sophisticated, undertaking leveraged buy-outs, and even issuing corporate bonds to increase their

available funds. The arrival of IPIC as a SWF thus illustrates the mutability and dynamism of vehicles and instruments for investing sovereign wealth.

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3 Travis Pantin, "IPIC unloads Barclays stake", *The National*, June 2, 2009.





MILITARY MACHINE FOR FIRING ARROWS WITH A  
CROSSBOW, DESIGNED BY LEONARD DA VINCI

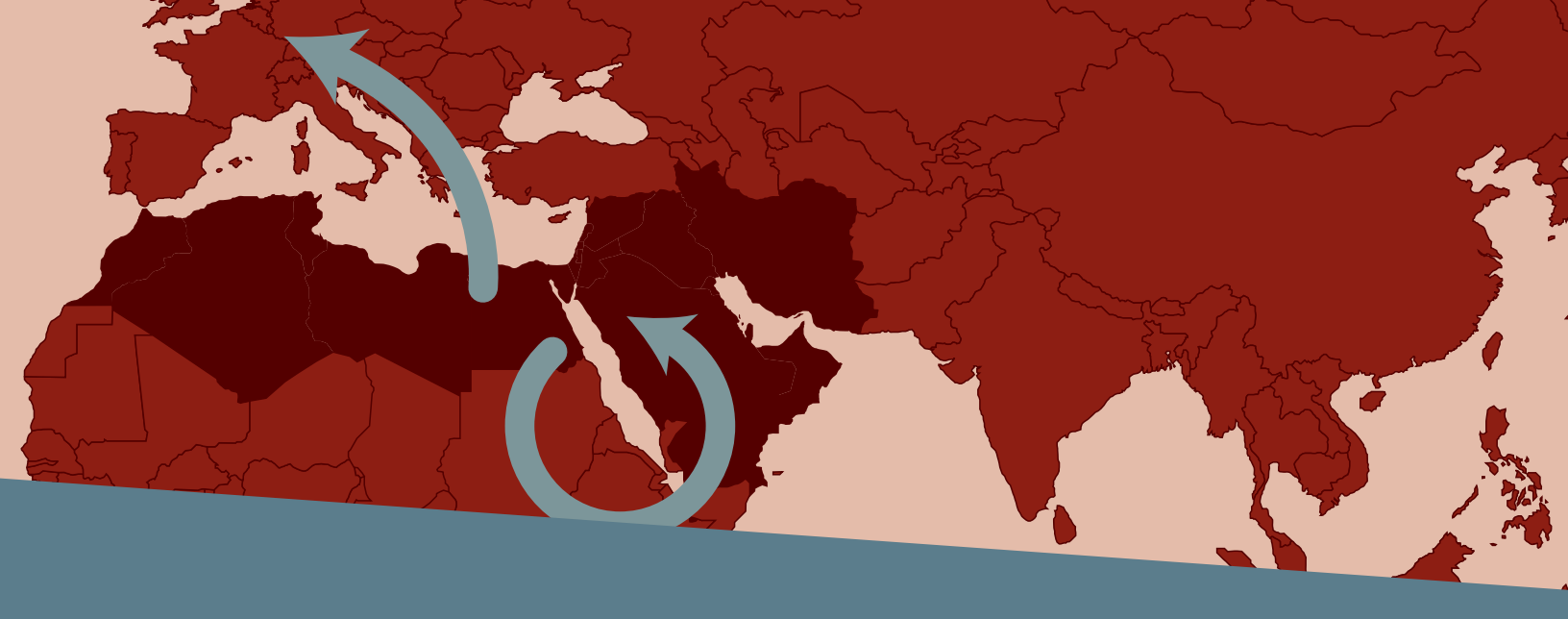
## Methodology

Our research methodology focuses on two main objectives: comprehensiveness of research and accuracy of information. To ensure comprehensiveness, we survey multiple sources, primarily relying on established business and financial databases as well as other reliable news sources and funds' websites. Most of the deals are amassed and consolidated from the business databases, with the other sources used for corroboration where necessary. To ensure accuracy, at least one high-quality source is captured for each data point, and where possible, two or more sources are established. Articles from information aggregators such as LexisNexis are carefully examined to ascertain the reliability of the original source. Moreover, news wires such as the Associated Press and Reuters are not used as a sole source of deal information because data quality tends to vary considerably.

We followed a strict process for capturing deal information, establishing a clear prioritized order for the reliability of sources.

1. Financial transaction databases: Thomson One Banker (and SDC Platinum), Bloomberg, and Zephyr
2. Fund websites (where available)
3. News sources: *Financial Times*, *New York Times* (DealBook), *Wall Street Journal* (DealJournal), GulfNews, Zawya.com
4. Information aggregators: LexisNexis
5. News wires: Associated Press, Reuters





## Aggregate Data

According to our data, in the first quarter of 2009, SWFs made 26 investments with a total reported value of \$6.8 billion. The number of deals is a decline of about 50 percent from the previous quarter (51 deals) and represents only 20 percent of that quarter's reported deal value.

Of the 31 funds that meet our criteria for a SWF, identified in our 2008 annual report, *Weathering the Storm*, 12 were active in the first three months of 2009. Additionally, we have included Abu Dhabi's International Petroleum Investment Company (IPIC) as a SWF for the first time in our analysis. Since its March 2008 purchase of Aabar Investments the nature of the investments made by the company has altered to the extent that recent activity suggests that it meets our criteria of a sovereign wealth fund (see sidebar).<sup>3</sup> IPIC presides over a portfolio worth \$14 billion, making it a substantial player in sovereign wealth investment.

SWFs made 26 investments worth \$6.8 billion during Q1 2009.

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<sup>3</sup> Miracky and Bortolotti eds., *Weathering the Storm*.



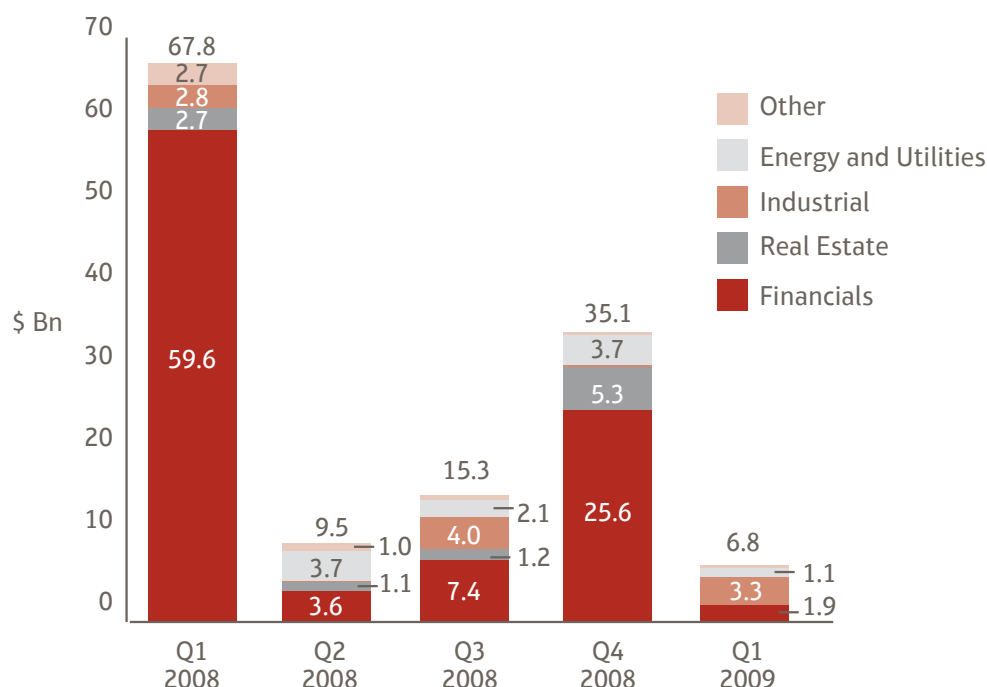
THE INDUSTRIAL SECTOR RECEIVED \$3.3 BILLION  
OF INVESTMENT FROM SWFs IN Q1 2009

## Sectoral Analysis

**SWFs invested in a broad range of sectors in Q1 2009; financial services and industrials were the two largest.**

During Q1 2009, SWFs invested in a broad range of sectors, with an emphasis on financial services: 46 percent of the deals, worth 28 percent of the expenditure, were in this sector. While there were five fewer financial services deals in Q1 2009 than there had been in Q4 2008 (12 as against 17), these were only worth a reported \$1.9 billion as against \$25.6 billion the previous quarter. Five of these deals represented the end of the domestic bailouts that dominated financial services in the final quarter of 2008—these represented only \$855 million of the \$1.9 billion total. The remaining deals were dominated by investments in OECD financials, with the sector apparently becoming more attractive. Five investments were made in this sector worth a reported \$871 million. \$800 million was accounted for by the China Investment Corporation (CIC) contributing to a new real estate fund to be managed by the American investment bank Morgan Stanley, while Australia's Future Fund and the Government of Singapore Investment Corporation (GIC) jointly purchased a 7.7 percent stake in the private equity firm Apax Partners for an undisclosed sum.

Figure 2: Value of SWF Investments by Target Sector Q1 2008–Q1 2009

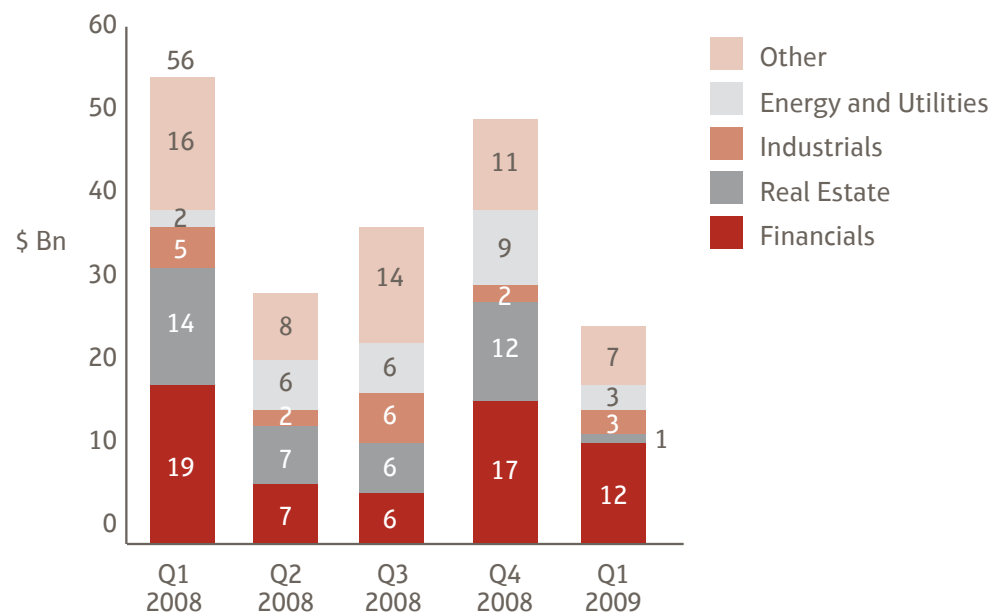


Note: Publicly available data for SWF equity & real estate deals, joint ventures and capital injections  
 Source: Monitor-FEEM SWF Transaction Database

Industrials was the second largest sector for investment, with three deals representing a reported \$3.3 billion. The reported value was due to two large investments by IPIC—those in Daimler and MAN Ferrostaal. The Libyan Investment Authority’s joint venture with Norwegian fertiliser manufacturer Yara was the third deal in the sector.

Industrials was the second largest sector for investment, with three deals representing a reported \$3.3 billion.

Figure 3: Number of SWF Investments by Target Sector Q1 2008-Q1 2009



Note: Publicly available data for SWF equity & real estate deals, joint ventures and capital injections  
 Source: Monitor-FEEM SWF Transaction Database

During the economic crisis, the real estate sector has suffered the greatest decline in SWF investment. In the final quarter of 2008 SWFs made 12 real estate investments valued at a reported \$5.3 billion, in the first quarter of 2009 there was only

**The real estate sector has suffered the largest decline in SWF investment. Only one deal was made in Q1 2009.**

one deal—IPIC's purchase of land on Al Reem Island in Abu Dhabi for \$1.3 million.

The energy sector appears to have been a relatively attractive sector for SWF investment in Q1 2009 (three deals, reported value \$1.1 billion); however, these have exclusively been made by funds from Abu Dhabi—ADIA, Mubadala and IPIC. All of the deals were investments in expanding petroleum production: Mubadala purchased Thai petroleum concessions through

its subsidiary Pearl Energy, IPIC bought a five year exchangeable bond in Oil Search (a company developing the reserves around Papua New Guinea), and ADIA bought a 0.07 percent share of the Colombian National Oil Company, Ecopetrol.

Among the remaining investments, technology and communications were the sectors on which SWFs concentrated. There were three deals in these sectors, with a total value of \$430 million. Again, all these deals were undertaken by Abu Dhabi funds—Mubadala and the Abu Dhabi Investment Council—which have an explicit mandate to develop their home economies.

Investments in expanding petroleum production dominated SWF investment in the energy sector.



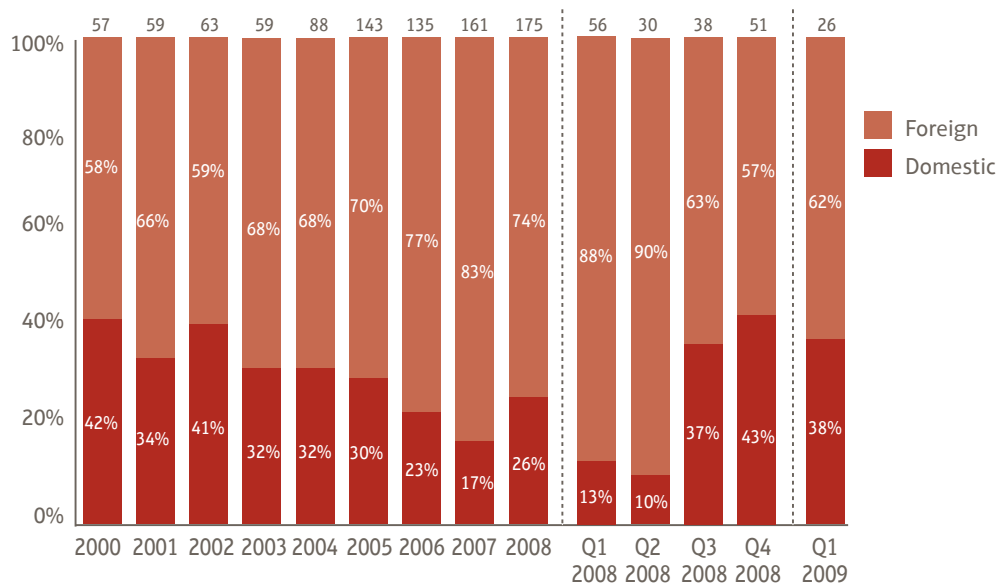


STUTTGART, GERMANY: STUTTGART IS HOME TO DAIMLER AG. THE AUTOMAKER RECEIVED \$2.7 BILLION FROM ABU DHABI'S IPIC IN Q1 2009

## Geographical Analysis

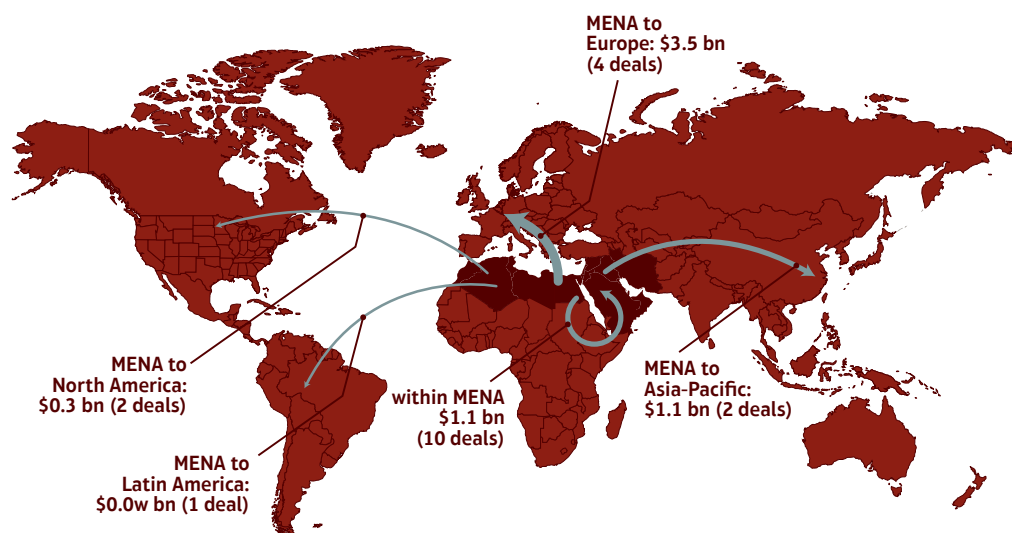
In contrast to the last six months of 2008, when there was a pronounced shift towards SWFs investing at home, in Q1 2009 SWFs' investments suggested they may, once more, be beginning to look for opportunities abroad.

Figure 4: Number of SWF Deals by Location of Target: Domestic vs. Foreign



Note: Publicly available data for SWF equity & real estate deals, joint ventures and capital injections  
Source: Monitor-FEEM SWF Transaction Database

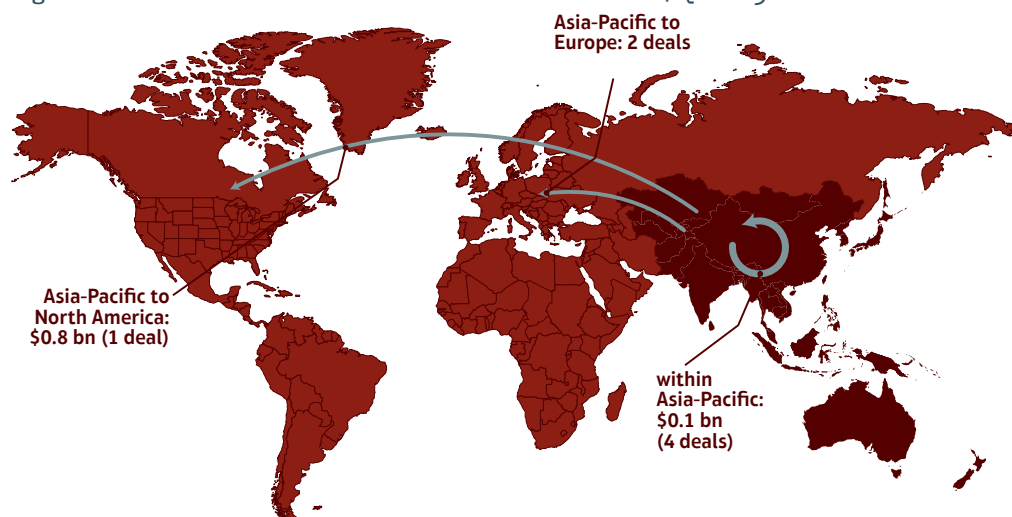
Figure 5: Investment flows from MENA-based SWFs, Q1 2009



Note: Publicly available data for SWF equity & real estate deals, joint ventures and capital injections  
 Source: Monitor-FEEM SWF Transaction Database

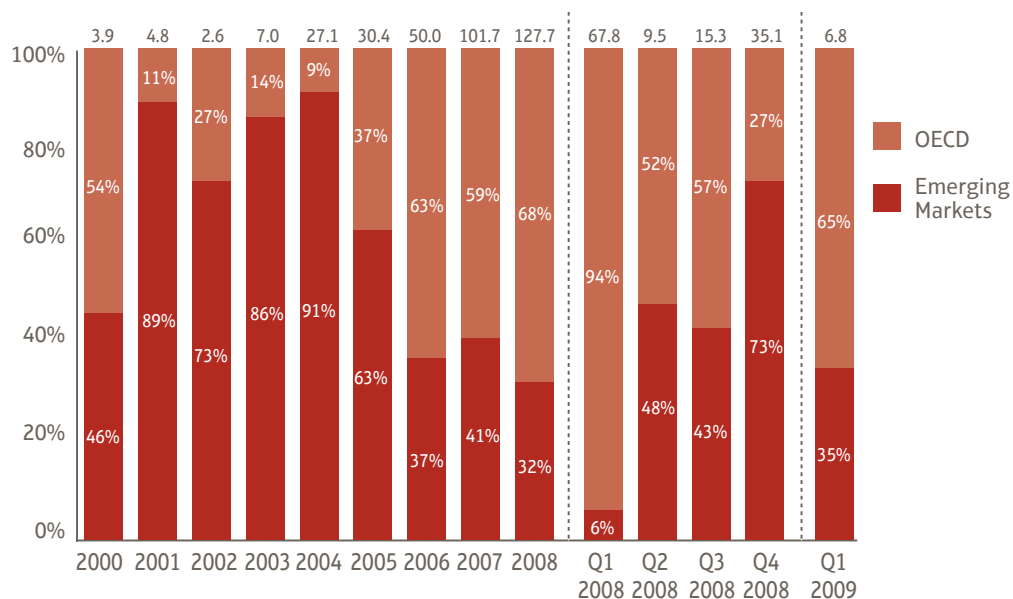
Nearly two thirds of the deals, representing 88 percent of the reported value, were made in foreign markets. Moreover, unlike the latter half of 2008, when there was a shift towards emerging markets, a third of the deals, representing two thirds of the reported values, were undertaken in the OECD.

Figure 6: Investment flows from Asia-Pacific-based SWFs, Q1 2009



Note: Publicly available data for SWF equity & real estate deals, joint ventures and capital injections  
 Source: Monitor-FEEM SWF Transaction Database

Figure 7: Value of SWF Deals (\$bn) by Location of Target: OECD vs. Emerging Markets



Note: Publicly available data for SWF equity & real estate deals, joint ventures and capital injections  
Source: Monitor-FEEM SWF Transaction Database

Deals were relatively evenly spread throughout the regions, in countries as diverse as Columbia, Germany and Thailand. However, SWFs continued to be cautious in North America, which received only three publicly reported SWF investments. The funds were more bullish in the Middle East, which received nine deals. In terms of value, however, Europe continued to be a preferred market for SWF investment, receiving \$3.5 billion—just over half of the total reported investment value for the quarter. In contrast, although the Middle East was the destination for nine investments, these only accounted for \$864 million or 13 percent of the total SWF expenditure.

Figure 8: Number of SWF Investments by Target Region Q1 2008-Q1 2009

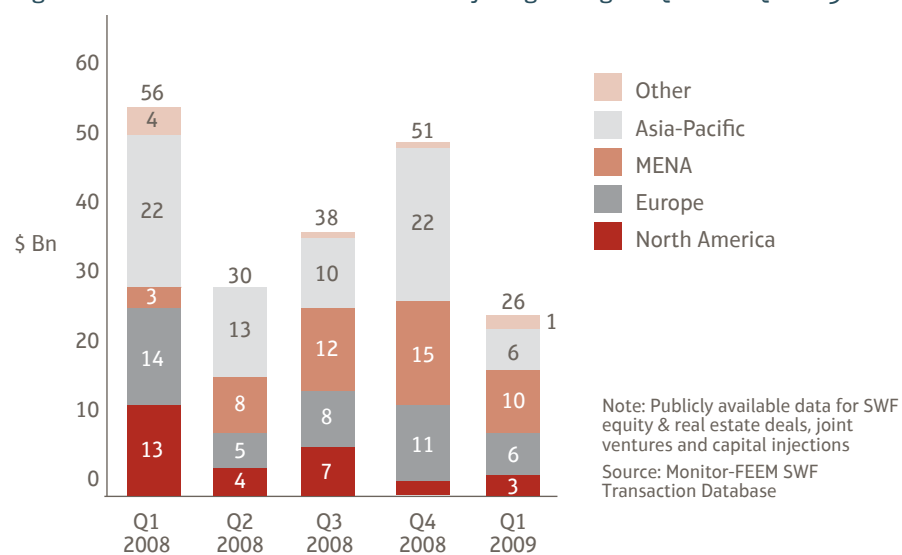
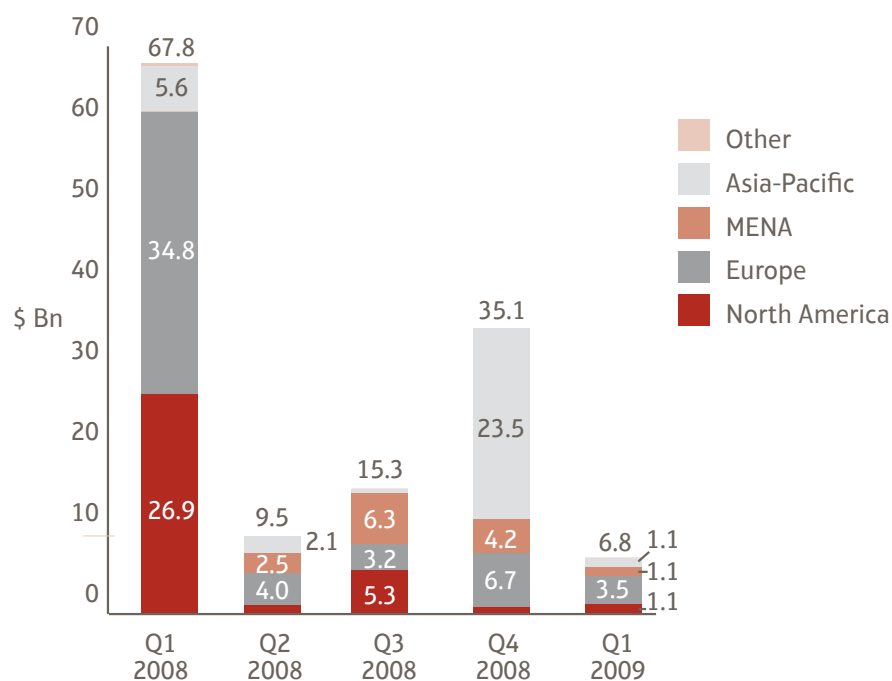


Figure 9: Value of SWF Investments by Target Region Q1 2008-Q1 2009



Note: Publicly available data for SWF equity & real estate deals, joint ventures and capital injections  
Source: Monitor-FEEM SWF Transaction Database



MOSQUE, ABU DHABI:  
ABU DHABI'S SWFS WERE THE MOST ACTIVE IN Q1 2009

## Funds

The Abu Dhabi funds were the most active investors during Q1 2009. Between them, ADIA, ADIC, Mubadala and IPIC made 12 investments, with a reported value of \$4.9 billion or nearly three quarters of the total reported SWF expenditure for this quarter.

**The Abu Dhabi funds were the most active investors during Q1 2009, accounting for almost half the deals.**

By contrast, the Singaporean funds, typically among the most active investors, were very quiet. Temasek Holdings did not make any publicly reported investments during Q1 2009, while GIC only made three investments with a reported value of \$35.5 million. The only other fund that invested a significant amount of money was CIC, which invested \$800 million in a new global real estate fund managed by Morgan Stanley.



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