Sovereign Funds Tightened the Spigot

Investment Slowed in '09 as the Financial Crisis Took a Toll, Though the End of the Year Saw a Rally

By Bob Davis

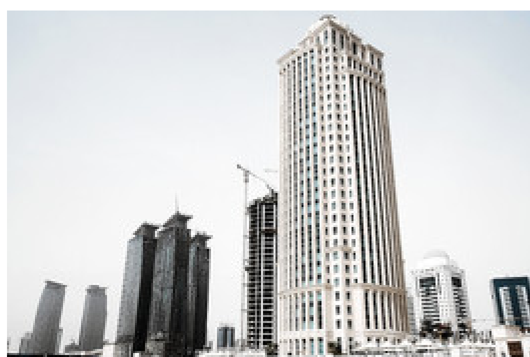
WASHINGTON—The global financial slowdown prompted a sharp reduction in investment by sovereign-wealth funds in 2009, though their pace of spending picked up at the end of year, said a report by two research groups.

Monitor Group, a consultant in Cambridge, Mass., and Fondazione Eni Enrico Mattei in Milan, Italy, track publicly disclosed investments by sovereign-wealth funds, recognizing that many of the funds' transactions may not be publicly reported. According to the report, the funds made $69 billion in equity investments in 2009, a 37% decline from 2008's $109 billion.

Sovereign-wealth funds are government-owned investment vehicles that are generally funded by natural-resources revenues or, in the case of Asia, export revenue.

The biggest-spending fund last year was Qatar Investment Authority, which invested more than $32 billion, the report said. That included a $13.3 billion investment in a Qatari railroad network, a $10 billion stake in Porsche Automobil Holding SE and a $4.7 billion investment in Volkswagen AG. China Investment Corp. was also a heavy spender in natural resources, investing in firms in Indonesia, Canada and elsewhere.

Before the global financial crisis, investments by sovereign-wealth funds ran into political opposition in the U.S. and Europe amid concern that the funds, some of the largest of which are owned by Russia, China and oil-rich countries in the Middle East, would invest for political purposes, not commercial ones. That fear faded as the economy worsened.



Bloomberg News

The Qatar Investment Authority, headquarters shown in Doha, was the biggest-spending fund last year, investing more than $32 billion.

In 2007, funds in China, Abu Dhabi and Singapore made investments in some of the biggest names on Wall Street, including Morgan Stanley, Citigroup Inc. and Merrill Lynch & Co., and were seen as saviors, though the investments didn't stave off disaster for the firms and produced big losses for the investors.

In 2008, the International Monetary Fund also stepped in, getting the sovereign-wealth funds to agree to invest solely for commercial purposes. While a few of the funds have improved their disclosures since then, the report said, many others haven't made much progress. That is because the IMF agreement has no enforcement mechanism and because political pressure in recipient countries faded.

In addition, the funds are being "criticized at home for investing abroad, often with poor results, rather than supporting domestic economies through the crisis," the report said. As a result, "many funds are finding disclosure of portfolio allocations and performances to be embarrassing on the home front."

At the height of concerns about sovereign-wealth funds in 2007, a number of analysts expected them to grow rapidly, to about $10 trillion in assets within a decade, but that now seems unlikely. The report estimates that the funds have $2.4 trillion in assets, about the same amount most analysts estimated in 2007.

One article in the report offered a larger estimate of the funds' assets—$3.8 trillion—and forecast they would grow to $6 trillion by 2012. The author of that article used a broader definition of sovereign-wealth funds than did the main part of the report.

Early in 2009, the funds cut back sharply their investments in financial services and real estate, as those sectors took heavy losses. By the fourth quarter, however, they started investing again in those sectors.

Overwhelmingly, sovereign-wealth funds invest overseas to diversify their portfolios. They frequently take controlling stakes in companies in developing markets, where there is less chance of political backlash, but take minority stakes in high-profile companies in the U.S. and Europe.

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