Bocconi

COMING OF AGE

The evolution of global SWF equity investment

Bernardo Bortolotti
Director, SIL

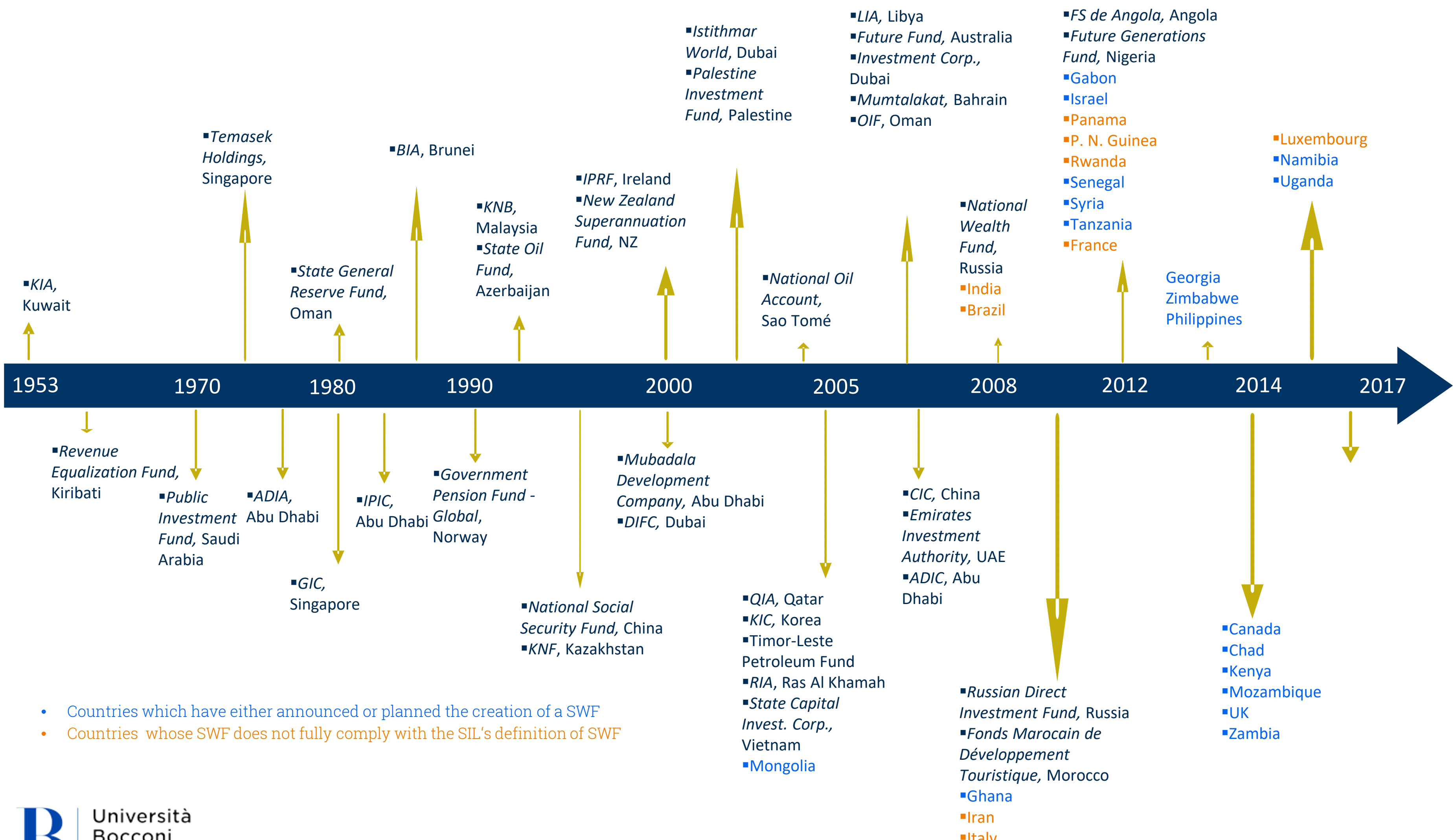
Sovereign Investment Worskhop
Milan, July 13, 2018

Università Bocconi
BAFFI CAREFIN CENTER
SIL Sovereign Investment Lab

Università Bocconi
BAFFI CAREFIN CENTER
SIL Sovereign Investment Lab

1 BEGINNINGS

A sketch of SWF history

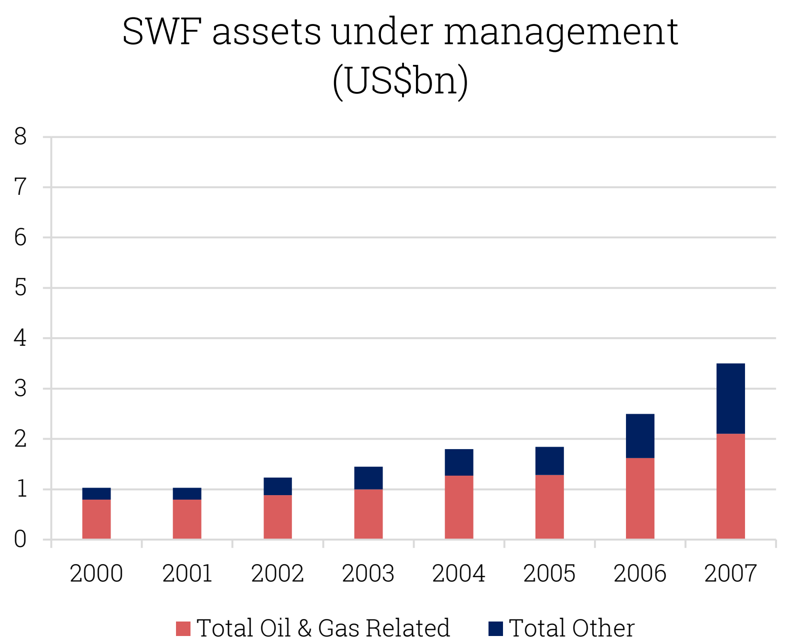


- Countries which have either announced or planned the creation of a SWF
- Countries whose SWF does not fully comply with the SIL's definition of SWF

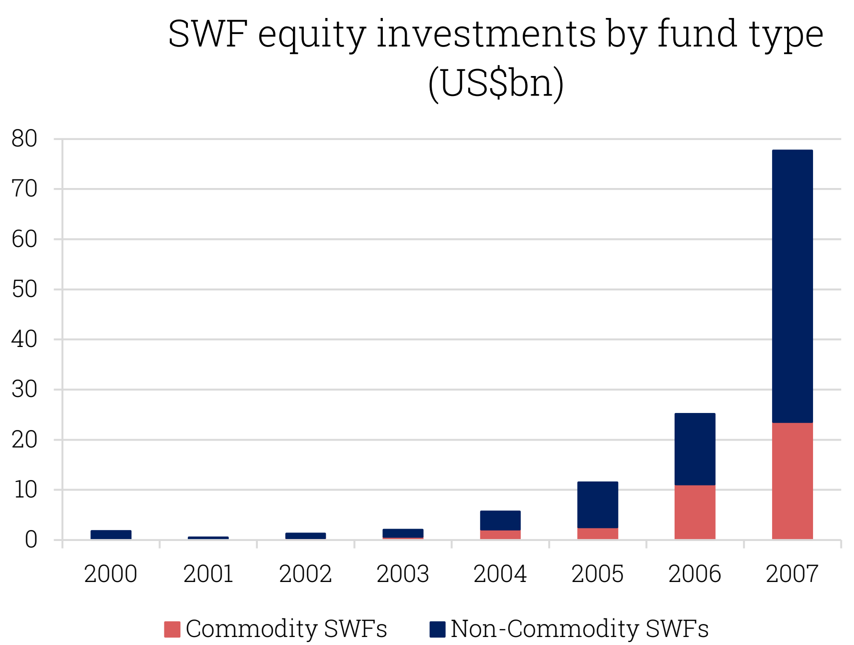
Università
Bocconi
BAFFI CAREFIN CENTER
SIL Sovereign Investment Lab

The rise of SWFs, 2000-2007

In this period, SWF have been the fastest growing class in the global fund management industry with an annual growth rate in AUM of 17% and of 95% in equity investment, respectively.



Source: SWFI, TheCityUK



Source: SIL Database

Università Bocconi
BAFFI CAREFIN CENTER
SIL Sovereign Investment Lab

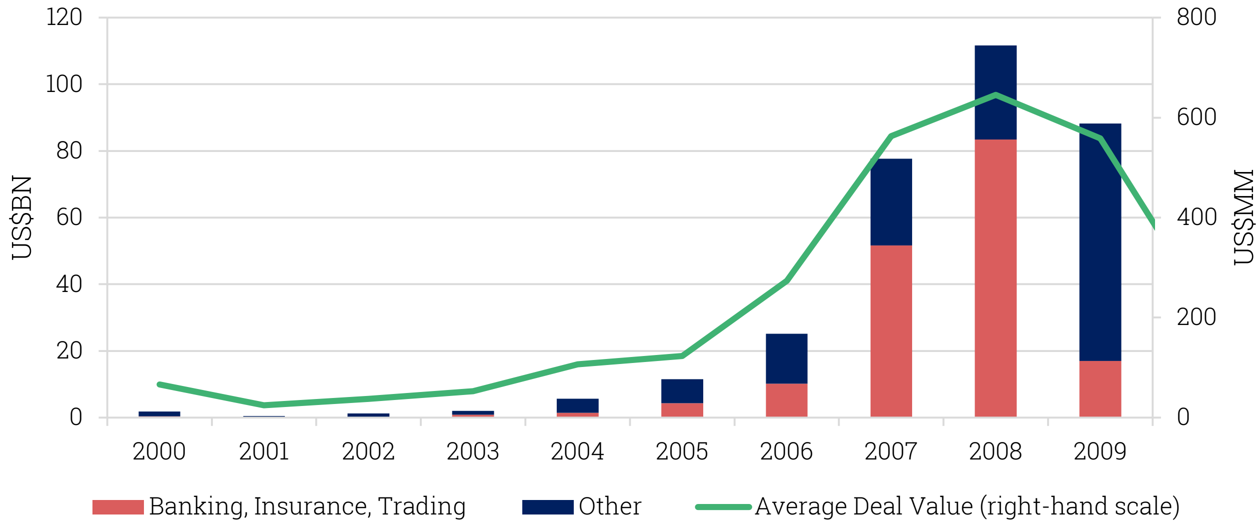
Università
Bocconi
BAFFI CAREFIN CENTER
SIL Sovereign Investment
Lab

2
WEATHERING THE STORM

The sovereign bailout

SWFs acting in concert with governments and central banks rescued Wall Street and other European big banks. The largest recapitalizations by SWFs have been, Citigroup $9.8bn (GIC & KIA), Barclays $8bn (QIA), Merrill Lynch $8bn (Temasek, KIA & KIC), Morgan Stanley $5bn (CIC)

SWF direct equity investment in banks



Source: SIL

155$bn

Total investment in the financial industry in 2007-2009

Università Bocconi
BAFFI CAREFIN CENTER
SIL Sovereign Investment Lab

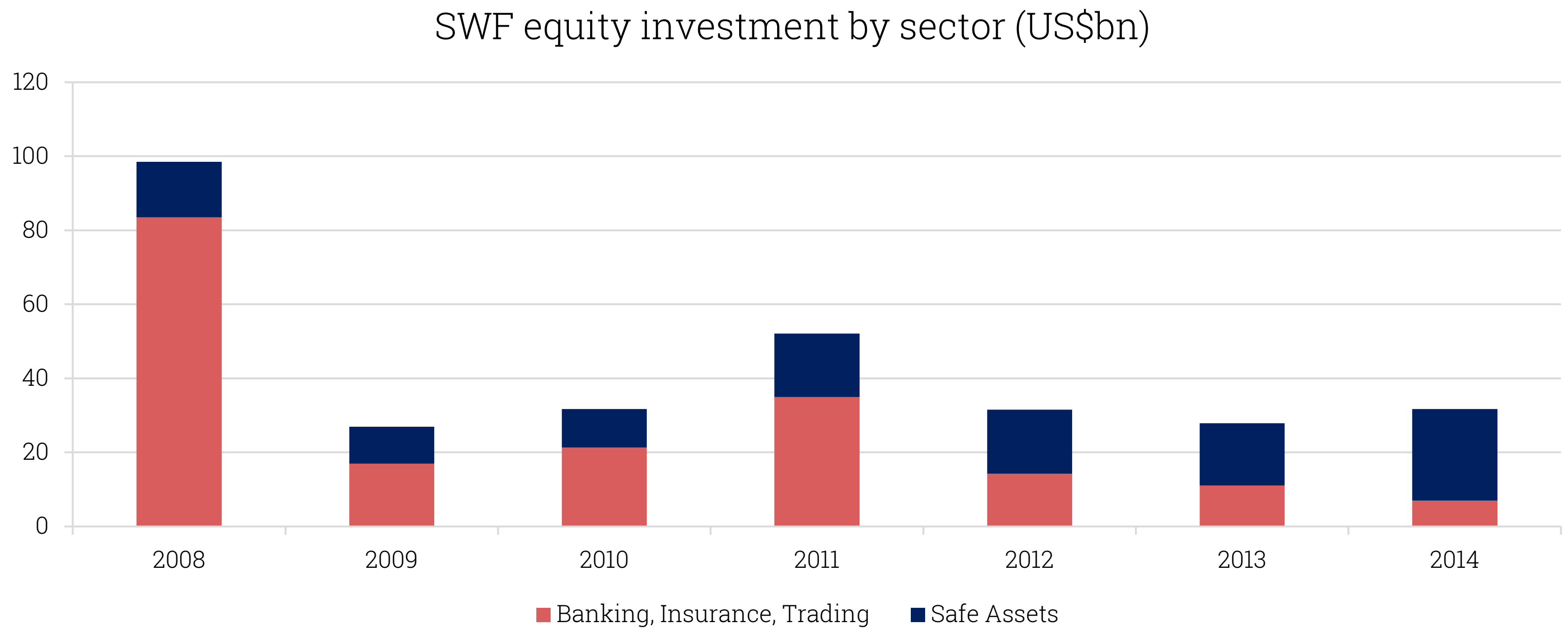
Università
Bocconi
BAFFI CAREFIN CENTER
SIL Sovereign Investment Lab

3

IN THE NEW NORMAL

The flight to safety

Low risk asset-substitution (government bonds), inflation hedging in QE environment, and illiquidity premia pushed SWF into «safe» alternatives such as real estate, infrastructure, and utilities, and out of the previous target sector of choice, the financial industry

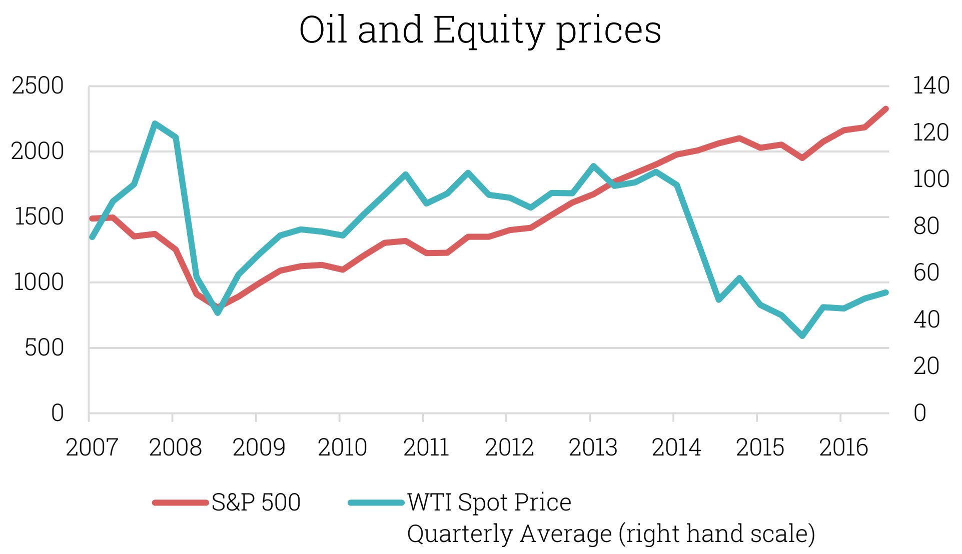


Source: SIL

Università
Bocconi
BAFFI CAREFIN CENTER
SIL Sovereign Investment
Lab

4
PLAYING THE LONG-TERM GAME

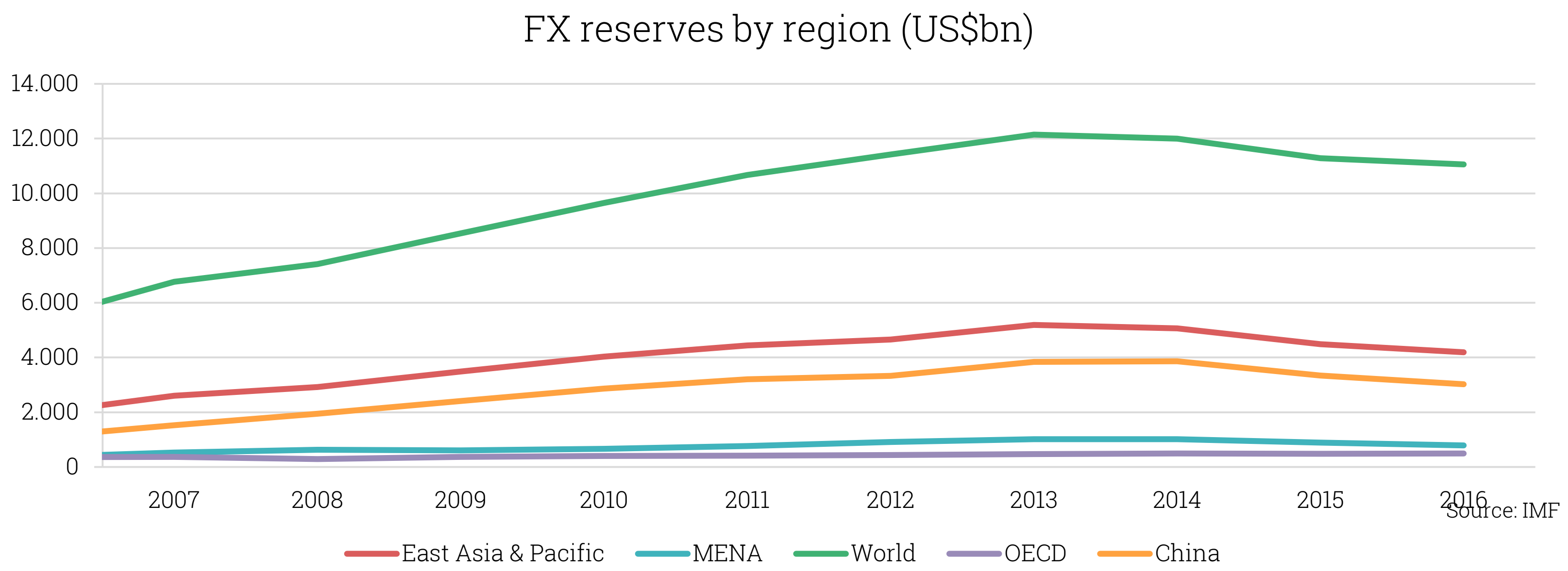
Oil price aftershock



KEY TRENDS, 2014-2016

- *11/2016: OPEC production cut, first since 2008*
- *Stabilization taking place, but unconventional sources put an upper floor ceiling to future price adjustments*
- *US climate and foreign policies should avoid market disruption in the near future*
- *Mid-term price forecast: $45-55/barrel*

Structural break in FX dynamics



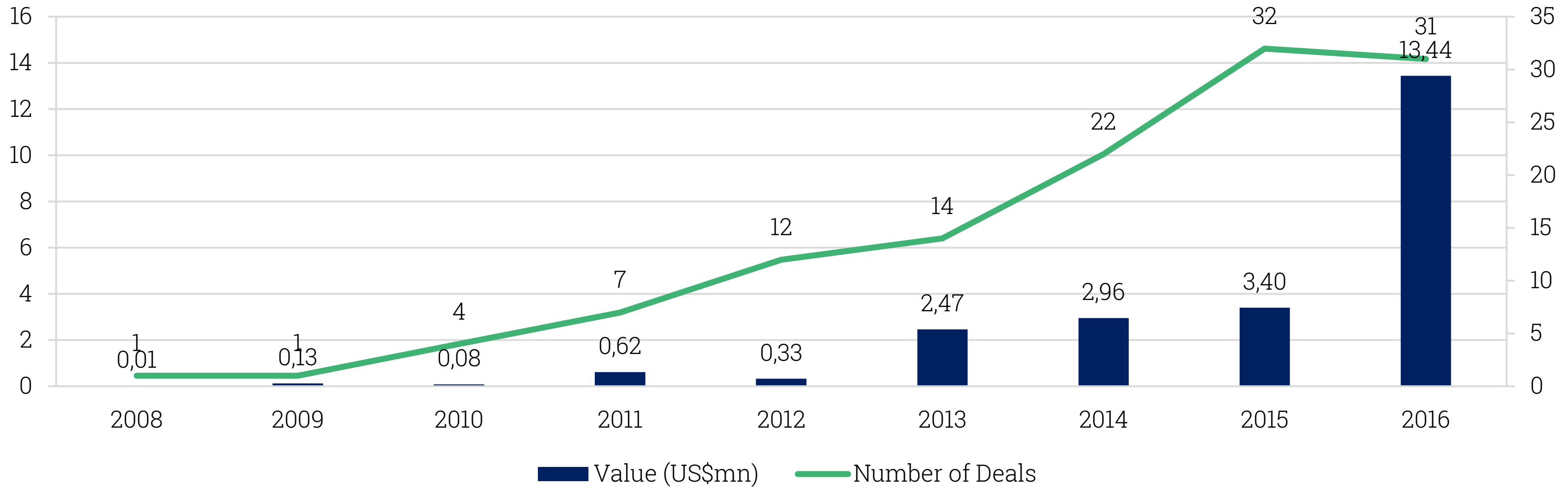
KEY TRENDS, 2014-2016

- *FX decline since 2014: $318bn (-16 %), primarily Saudia Arabia, China, and Russia*
- *Capital flight from EM and China forced FX liquidation to stem currency devaluation*

Hunting unicorns

With $19.8bn, SWF investments in high-tech companies account for 13.3% of investment value and 17.7% of total investments in the period, in the form of co-investments with VC/PE, rather than LPs

SWF equity investment in IT-linked sector (US$bn)

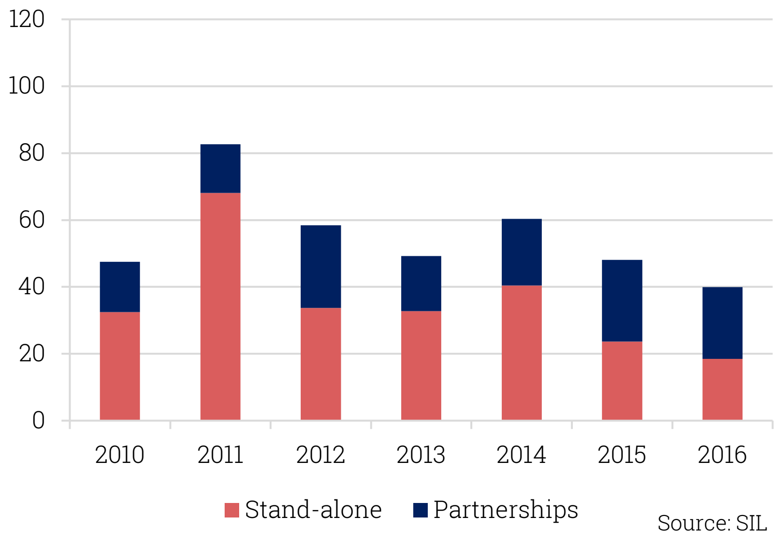


Source: SIL

The rise of SPP

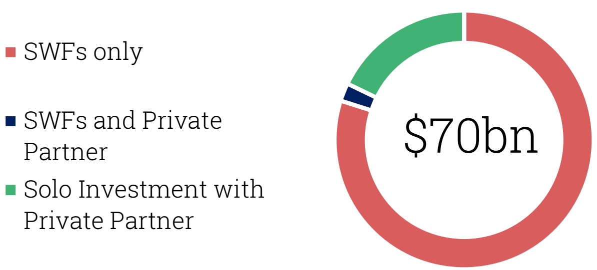
Investment alliances account for 35% of total deal value in the 2010-2016 period, especially Sovereign-Private-Partnership (SPP) with a strategic partner or a financial player with complementary assets/expertise (pension fund, PE/VC, RE or infrastructure specialist)

Partnerships vs standalone investments (US$bn) 2010-2016



Source: SIL

Partnerships 2010-2013



Partnerships 2014-2016

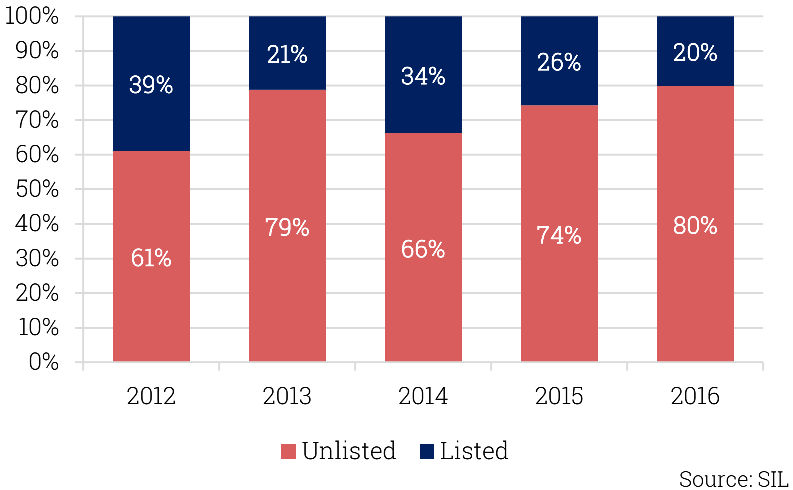
Source: SIL

Università Bocconi
BAFFI CAREFIN CENTER
SIL Sovereign Investment Lab

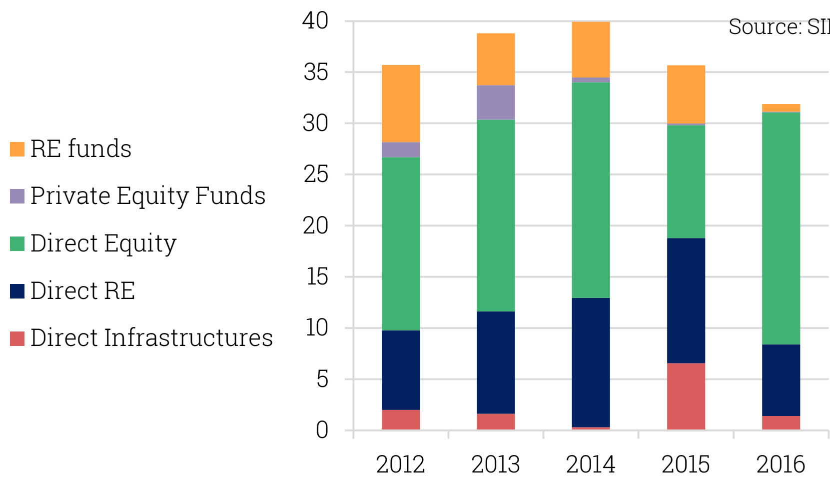
Going private

In the last years, SWF have increased their equity investments to unlisted targets. When operating in private markets, rather than outsourcing mandates to external managers or PE funds, opt for direct equity investments

SWF equity investment by target type (%) 2012-2016 (listed/unlisted)



SWF investment in private markets (US$bn) 2012-2016



Università Bocconi
BAFFI CAREFIN CENTER
SIL Sovereign Investment Lab

SWFs coming of age

Major changes to SWF investment framework			
2000-2007	2008-2009	2010-2013	2014-2016
Beginnings	*Weathering the storm*	*In the New Normal*	*Playing the long-term game*
• Building execution capabilities • Consolidate external managment • Conservative asset allocation focused on liquid assets	• Countercyclical investments at home and abroad • Focus on financial industry • Full acceptance as responsible player in global financial markets	• Increased exposure to alternative asset classes, especially RE and infrastructure • Harvesting the iilliquidity premium • Greater tolerance for risk and lower liquidity needs	• Seeking internal growth by more active portfolios and skill-based strategies • Focus on private markets, insourcing and partnerships • Going «thematic», focus on the long term drivers of returns

Università Bocconi
BAFFI CAREFIN CENTER
SIL Sovereign Investment Lab

5
WHAT'S NEXT?

SWF in the XXI century

KEY TRENDS TO FOLLOW

- *In the new energy scenario, resource-rich countries will strive to diversify their economies, and SWF will be out at work to catalyze local development, launching new sectors and enabling the private sector*
- *With mounting protectionism and global trade going south, SWF engines of growth will be a spent force in the foreseeable future*
- *Liabilities may materialize, forcing organizational changes, new risk management and investment frameworks*
- *SWFs are here to stay...*

Università
Bocconi

BAFFI CAREFIN CENTER
SIL Sovereign Investment Lab