

Bocconi

The Great Reallocation

HIGHLIGHTS OF THE SWF ANNUAL REPORT 2013



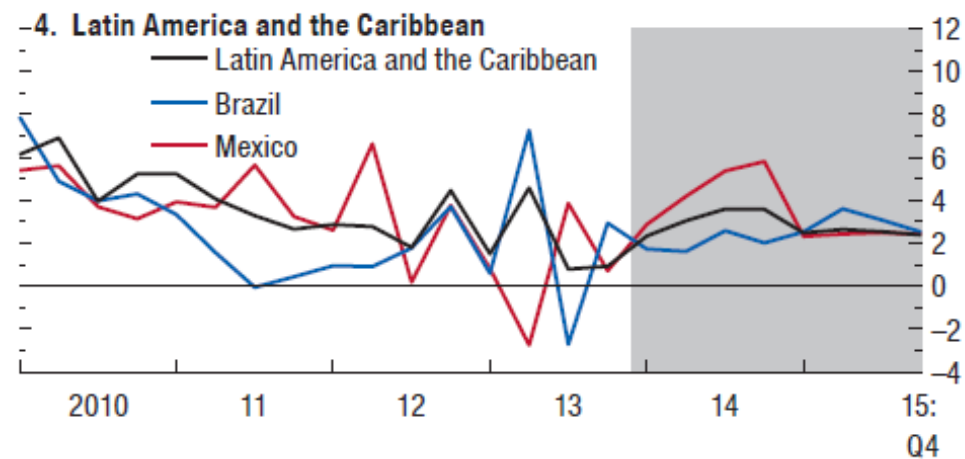
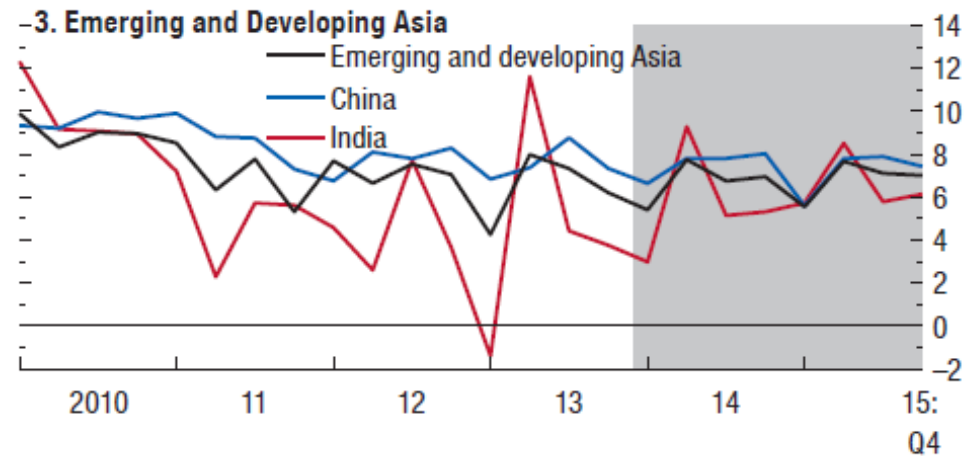
Bernardo Bortolotti, SIL, Università Bocconi

Università Commerciale
Luigi Bocconi

Florence, Sovereign Investment Workshop, June 27, 2014

Global Trends in 2013

The Deceleration of Growth in Emerging Countries

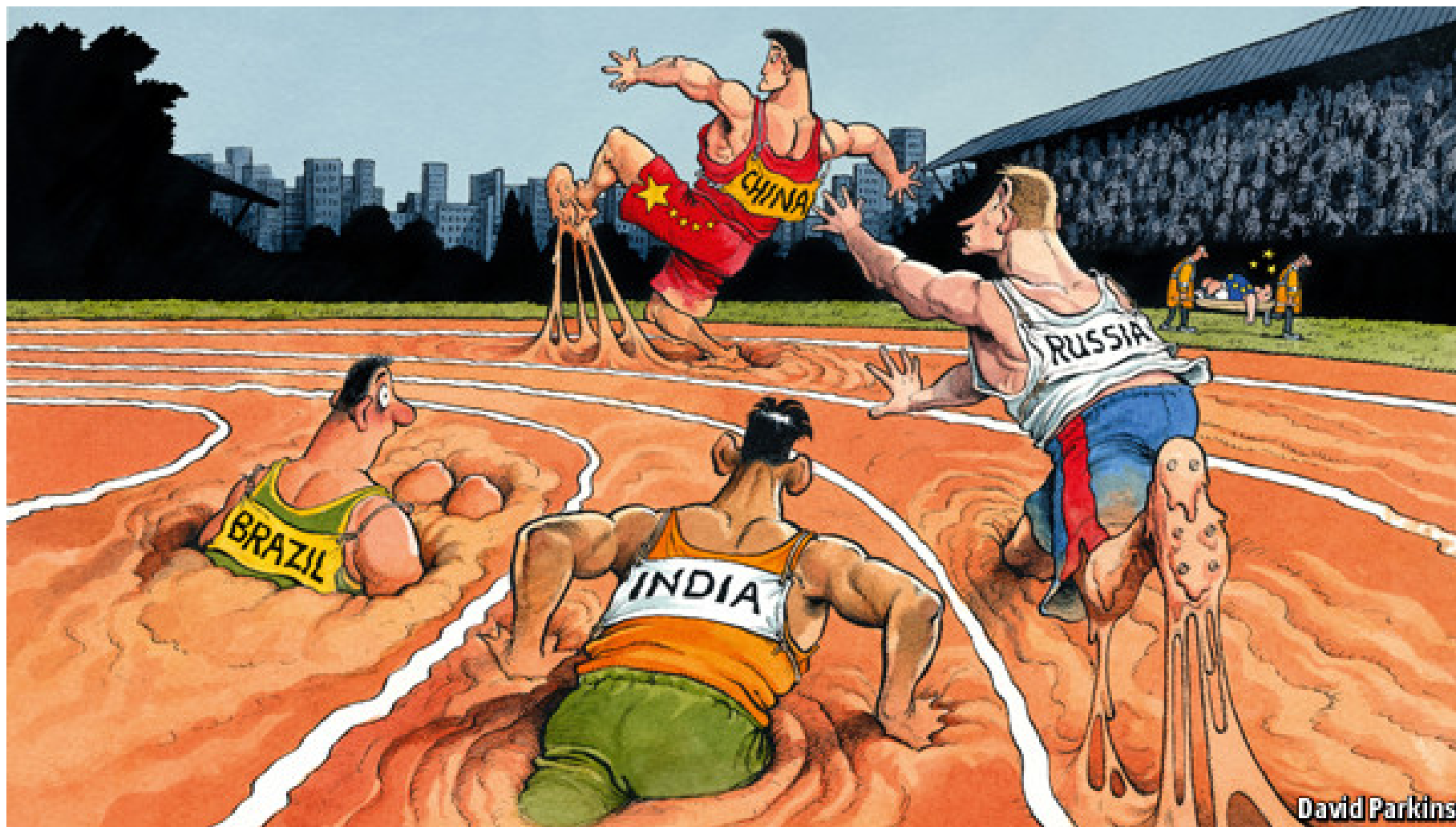


Source: IMF staff estimates.



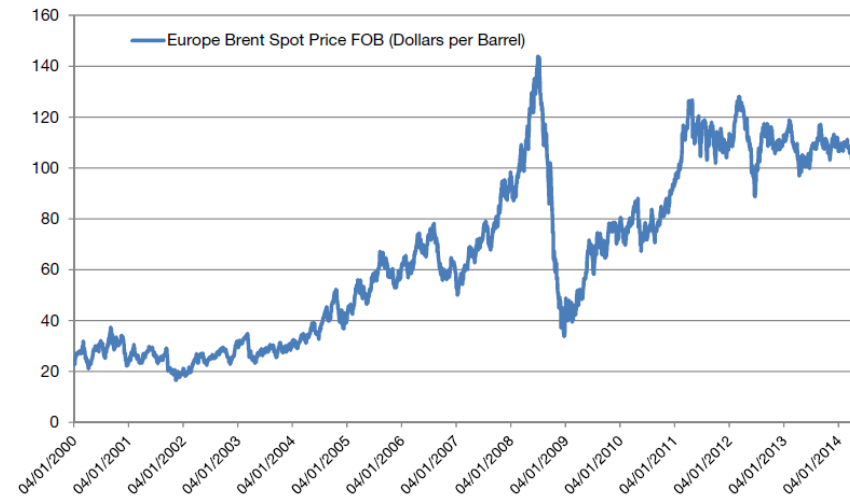
Global Trends in 2013

The Deceleration of Growth in Emerging Countries



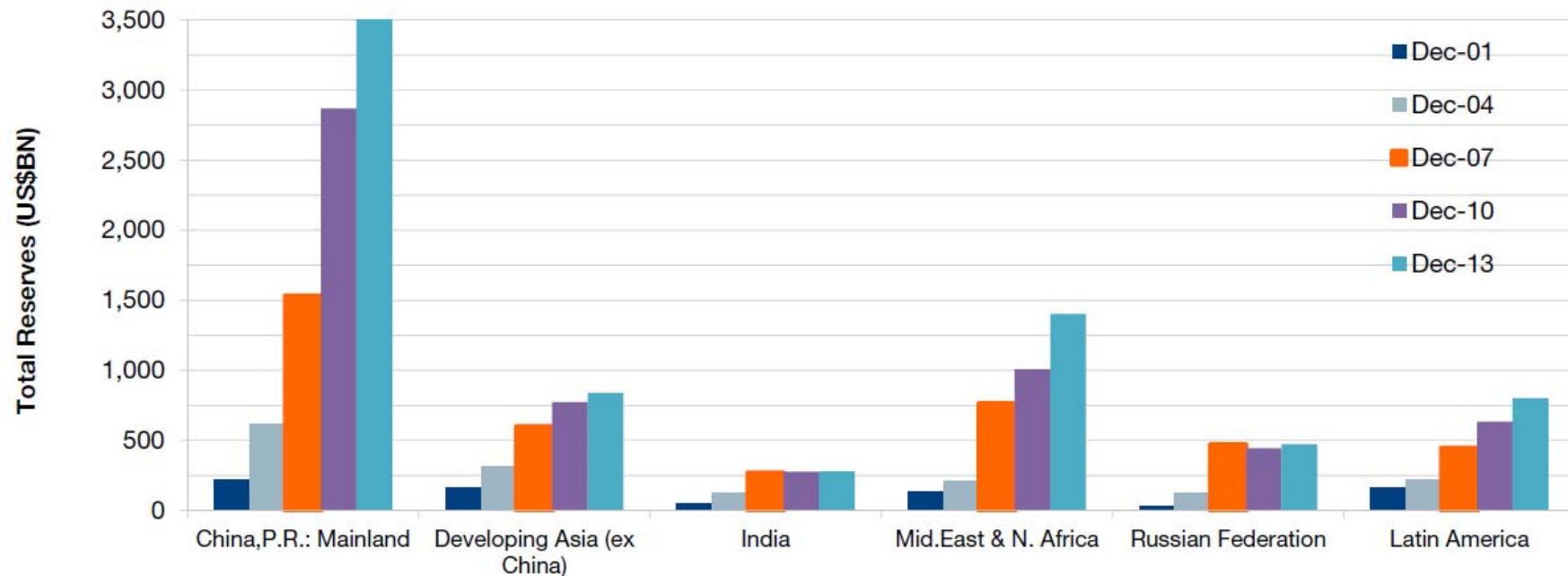
Global Trends in 2013

The Energy Revolution



Global Trends in 2013

The Slowdown of Foreign Exchange Reserves Growth



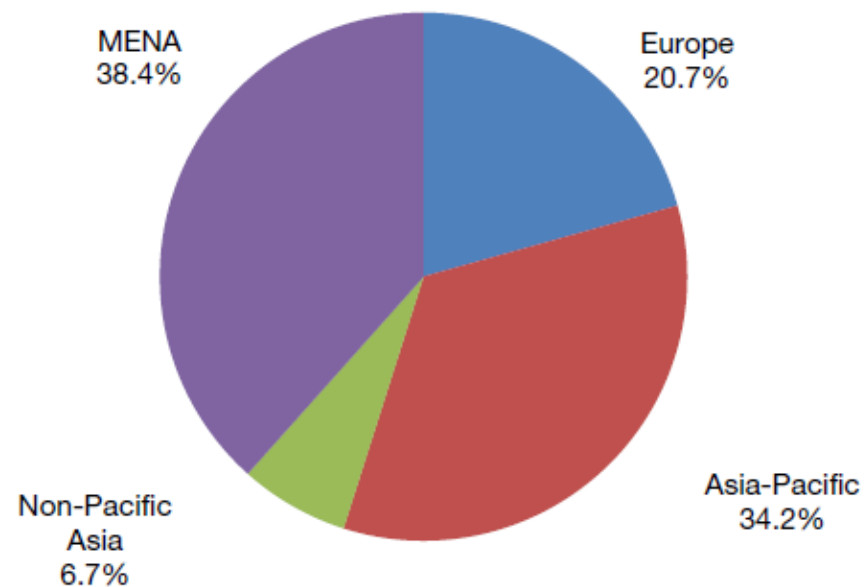
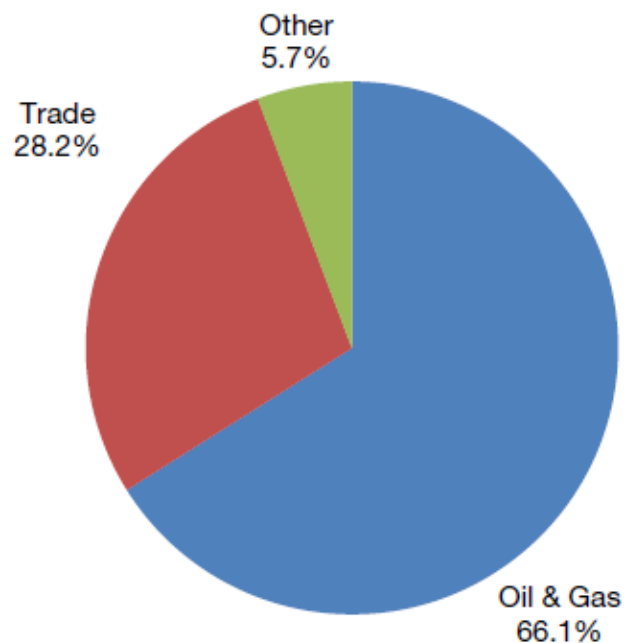
Source: IMF, International Financial Statistics

- World FX reserves are worth **\$12.1trn**, of which **\$8trn** of EM and developing economies
- FX reserves average annual rate of growth :
 - 2001-2007: **19%**
 - 2008-2013: **10%**



How Big are SWFs?

AUM by Region and Source of Funds, 2013



Source: Sovereign Investment Lab, Università Bocconi

- **33** SWFs meeting the SIL definition
- Total AUM: **US\$ 4,166.33bn**
- Oil&Gas AUM: **US\$ 2,751.91bn**



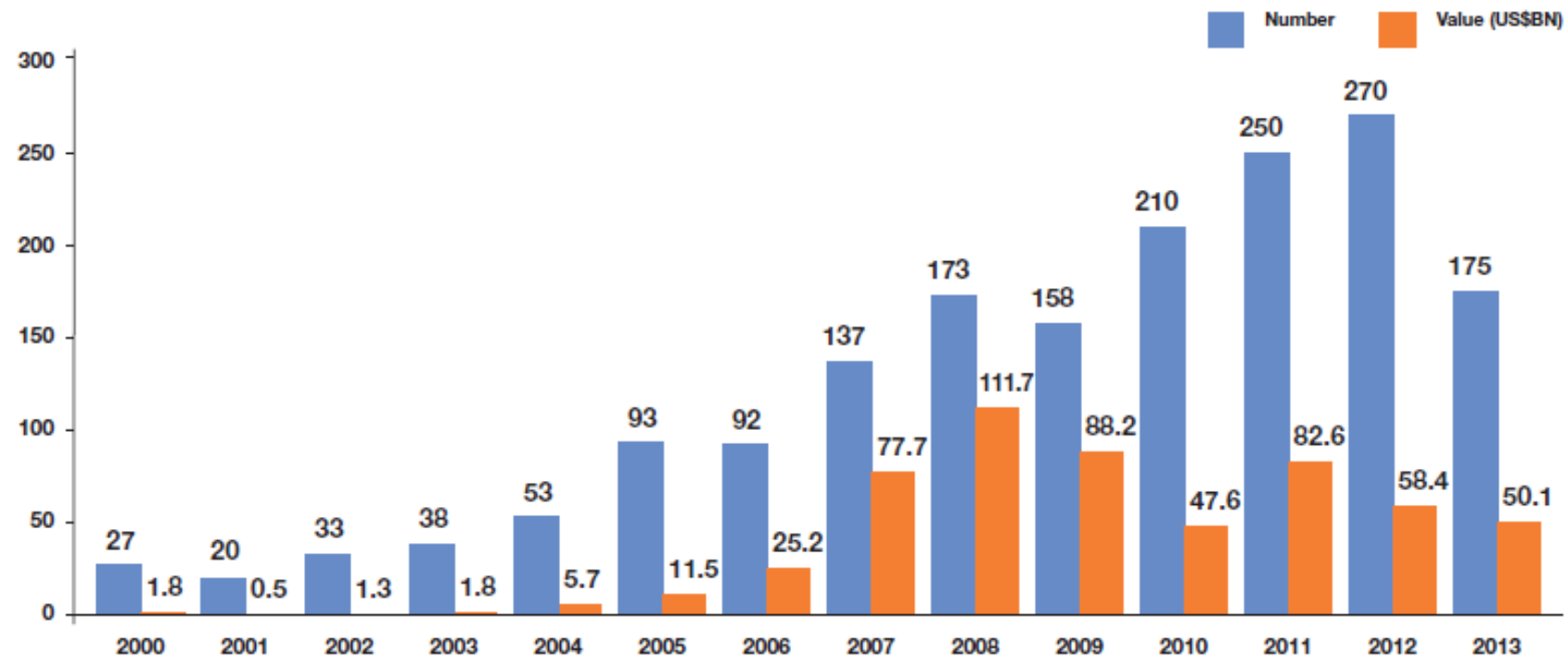
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Bernardo Bortolotti; 25/06/2014

SWF Activity Slowing Down

Direct SWF Investments since 2000

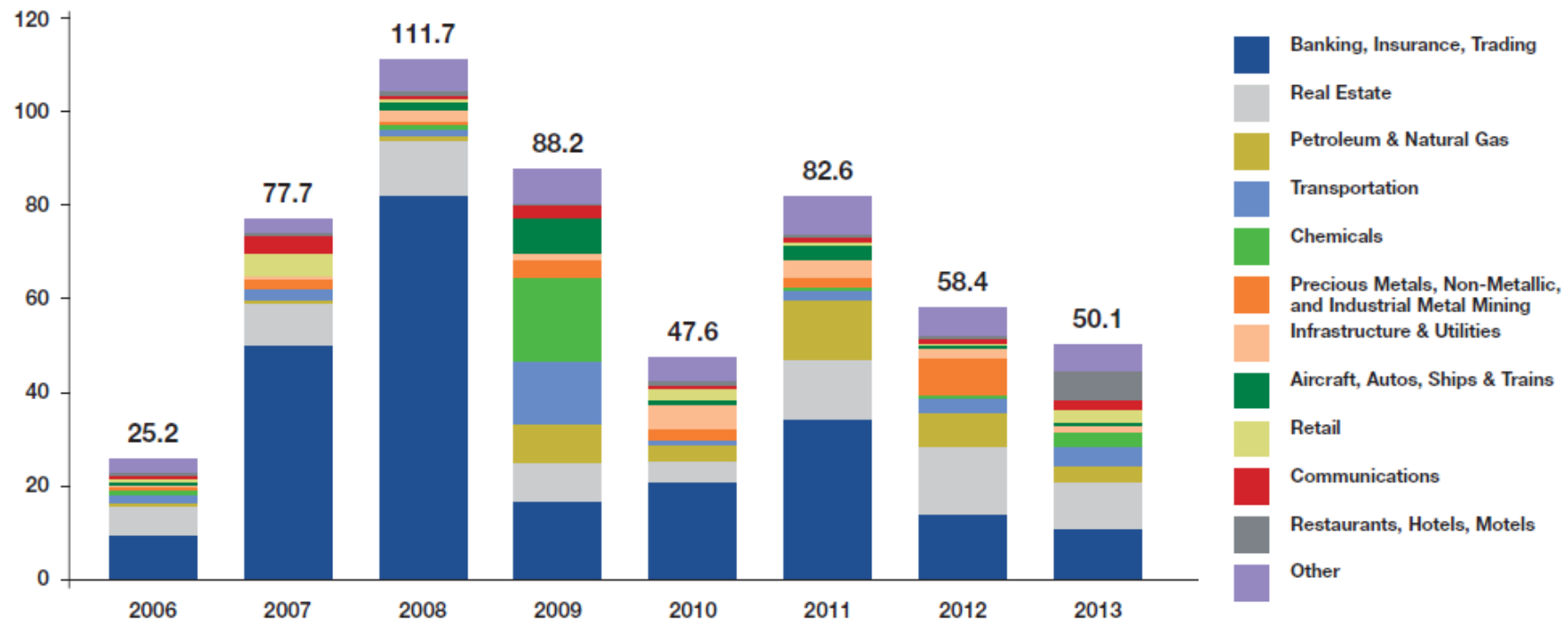


- **175 deals** worth **\$50.1 bn** in 2013
- **35 % decrease in number of deals** and **15 % decrease in value** since 2012
- Consolidation of a downward trend started in 2011



The Great Reallocation: Sectors

Value of Direct SWF Investments by Target Sector, 2006 - 2013

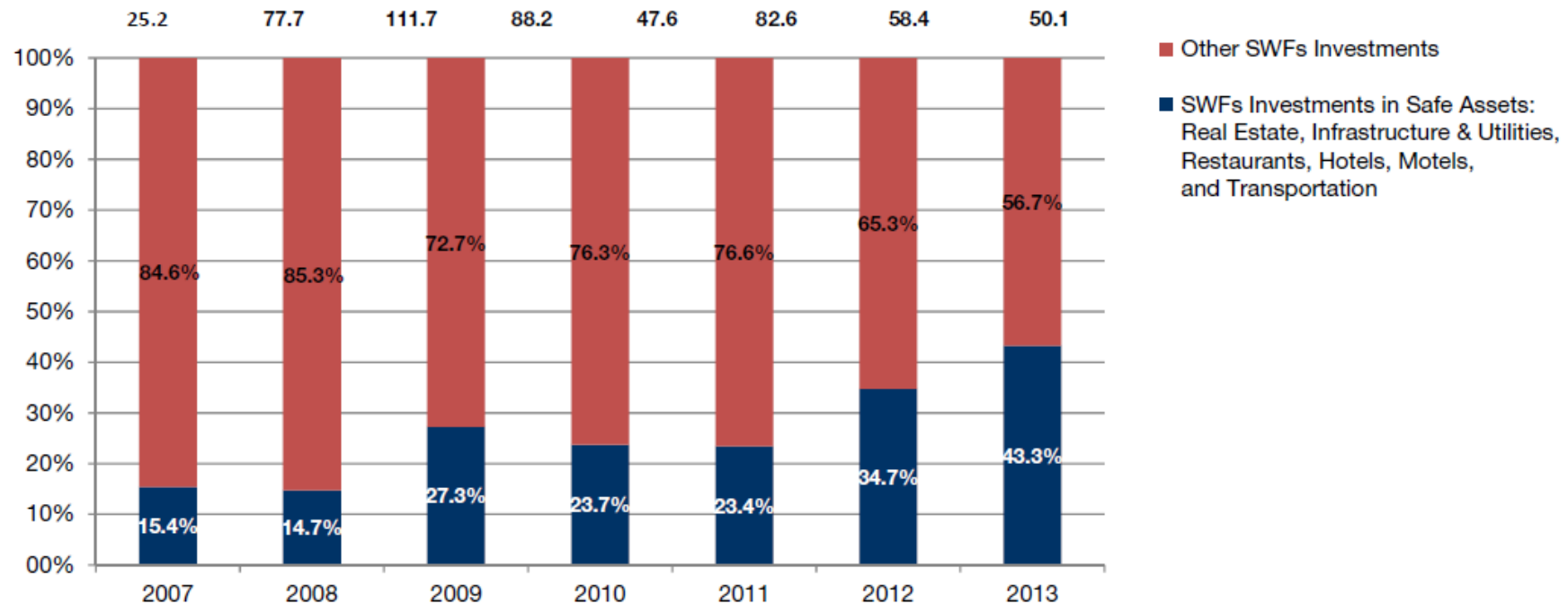


- The decline in financial sector investment continues in favor of **real estate** and **hotels** and **tourism facilities**
- Better diversification, also a sign of **recovery in the banking sector**



The Rise of Safe Assets

SWF Investments in RE, hotels, infrastructure and utilities, 2007-2013

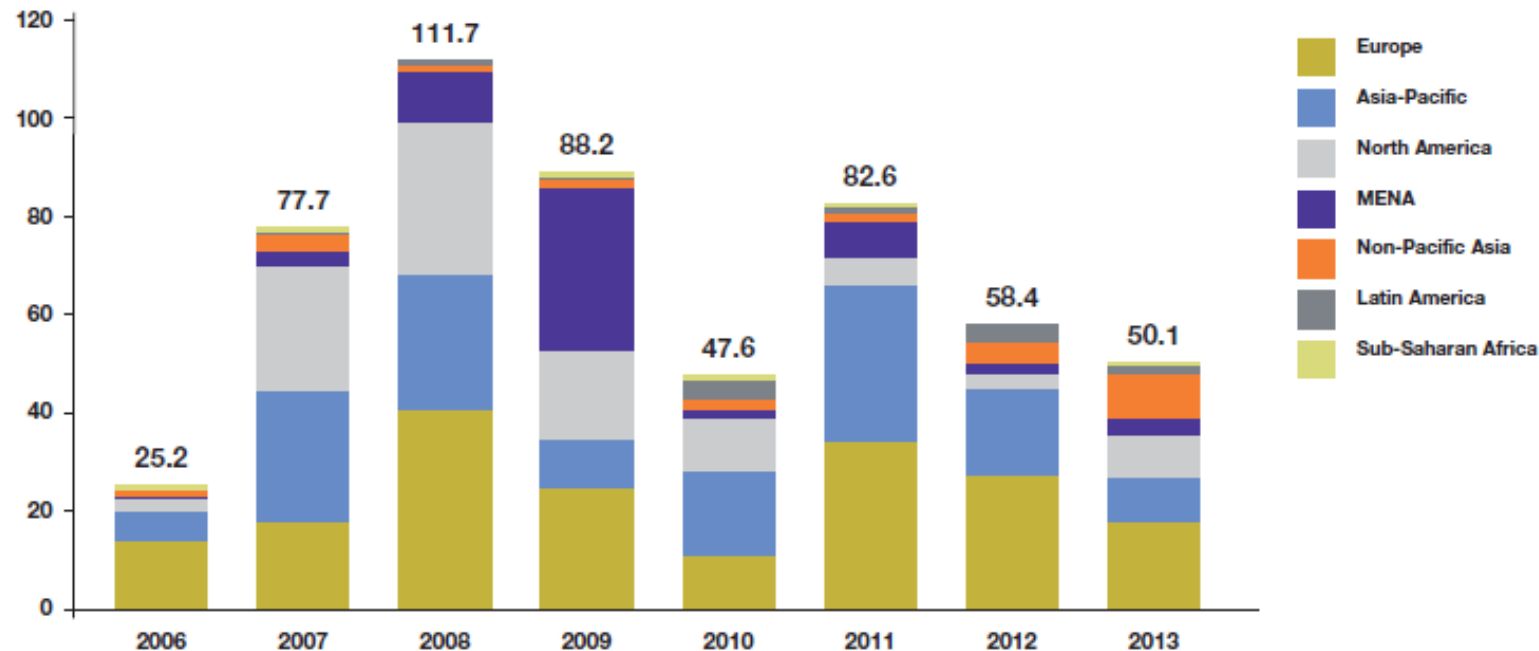


- Steady increase in the share of “**safe harbor**” investments since the financial crisis
- Drivers: cheap prices, inflation proof assets, long-term earnings certainty
- Boom in RE and hotels: **38 deals worth \$16bn** (no development projects though)
- Infrastructure and utilities reawakening with **\$4bn** primarily in Australia



The Great Reallocation: Regions

Value of Direct SWF Investments by Target Region, 2006 - 2013

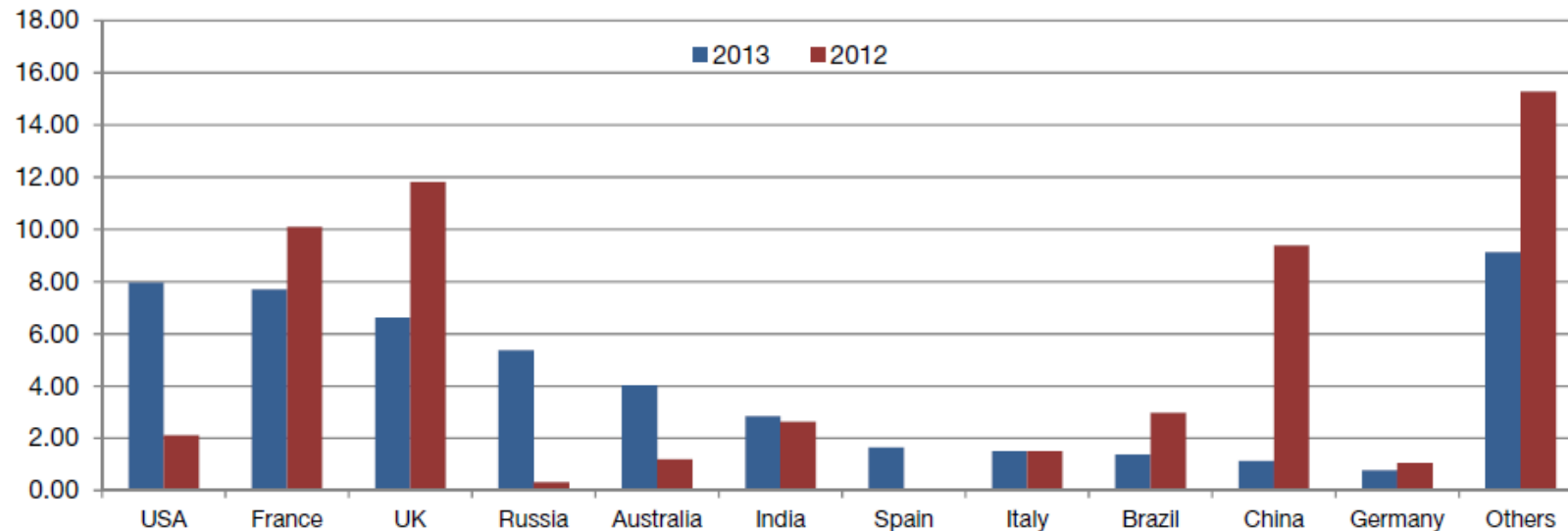


- Steady increase of equity investment to **mature markets of OECD economies**, the highest share since 2008 (65%)
- Contraction in South-South (within MENA, Africa, Asia-Pacific, LATAM) investment: 16 % total cross-border value in 2013 (26 % in 2012)
- Europe the target region of choice: **33 deals, \$18.4bn**
- North America and Non-Pacific Asia up, LATAM and Pacific Asia down



The West and the Rest

Direct SWF Investments by Target Country in 2012 and 2013

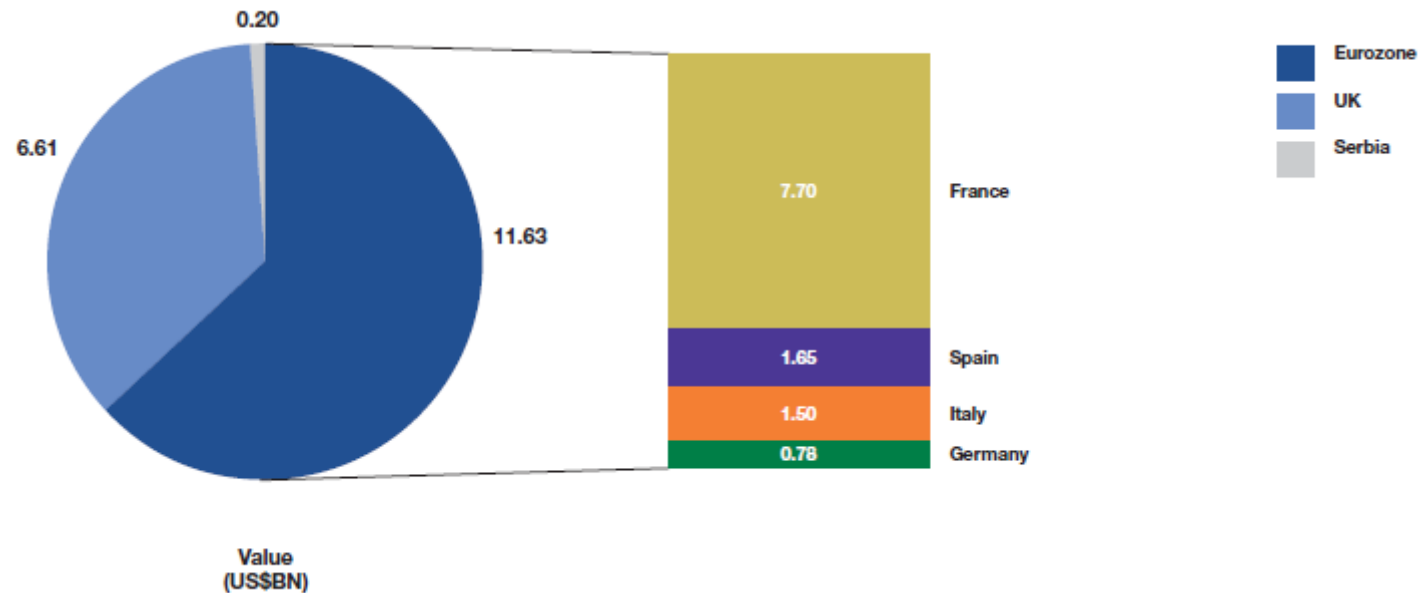


- USA spectacularly attractive: QIA in BofA and large deals in RE by GPF and GIC
- BRICs rebalancing: China, the biggest loser: down **from \$4.6bn to \$620ml** in favour of Russia thanks to VTB's joint bid by GPF, SOFAZ, and QH and CIC's acquisition of Uralkali (potash). Brazil under the radar screen



The Revenge of the Eurozone

Foreign Investments in Europe, 2013

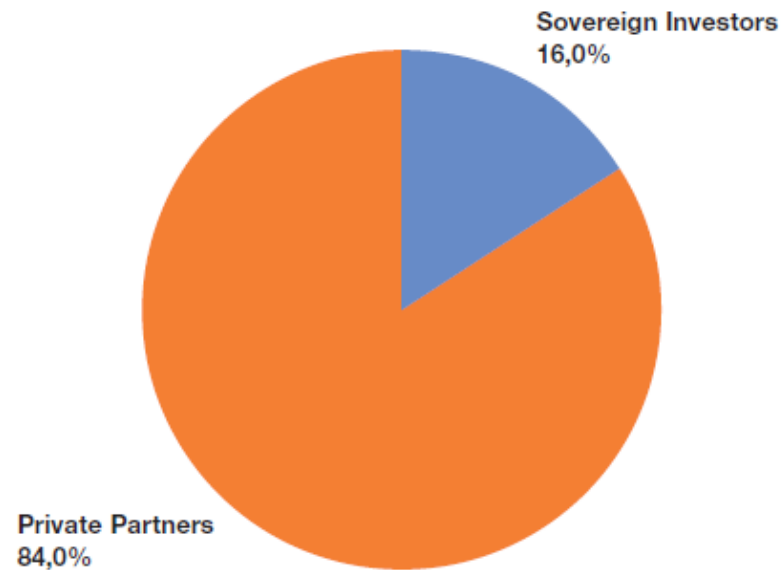


- Macroeconomic stabilization caused **rebalancing in favour of the Eurozone**
- France surpassing the UK (first time in SWF history) by deal value with \$7.7bn
- Sizable deals in Spain: Temasek becomes 4^o largest shareholder in Repsol; GPF in railroad constructions
- Italy in line with 2012, still underweighted
- Safe assets reallocation confirmed: **55 %** of deal value in RE, infrastructure and utilities

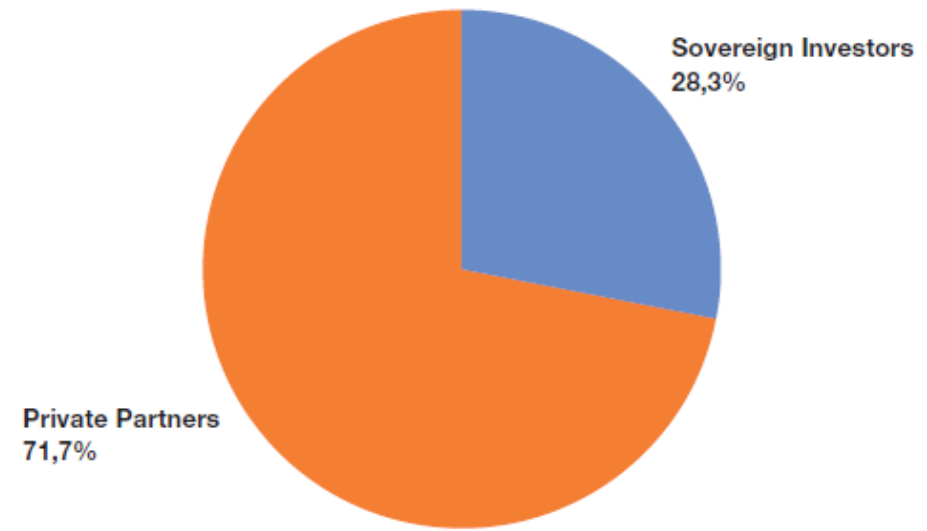


From co-investment to SWF-Private Alliances

Direct SWF Co-investments by Type of Partnership, 2013



Value: US\$16.9 billion



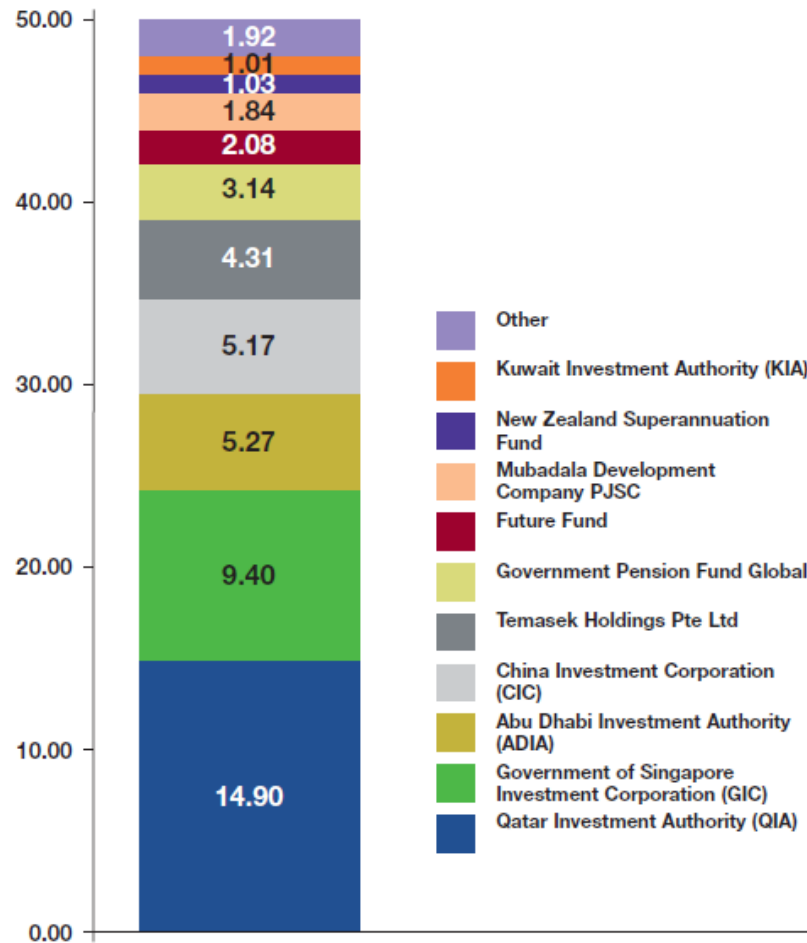
Number of Deals: 53

- In 2012, **46 %** of deal value involved co-investments among SWF (notably QIA, CIC, and GIC in Xstrata and Total)
- In 2013, cooperation took mainly the form of **JVs between sovereign and private like-minded investors** (GPFG and Boston Properties and TIAA-CREF in RE, IFM and ADIA in NWS Ports, Temasek and PE investors in Astrea II, etc.)



The Top Ten SWFs by Deal Value

Value of Direct Investments by Top Spending SWFs, 2013



- Changeover power in Qatar meant continuity: in 2013, **QIA is again top spender** and increased its total share to 30 %
- Singaporean extremely active investors: Temasek and GIC lead ranking by deals with equity investments worth **\$13.7bn**
- News from downunder: Australian Future Fund and New Zealand Superannuation Fund enter the top ten



The Great Reallocation



2013 marked possibly a turning point in SWF investment strategy:

- Growth deceleration in EM slowed down investment with implications across geographies and sectors
- EM do no longer make up for weakness in rich countries
- Safe assets in developed countries the obvious choice

Stay tuned...

Thank you

