Show Me the Money:
Sovereign Wealth Fund in a Rebalanced World

ESADE Business School
Javier Santiso, Professor of Economics
Director, ESADE Centre for Global Economy & Geopolitics (ESADEgeo)
1. Sovereign Wealth Funds: looking towards emerging markets

2. Sovereign Wealth Funds: looking towards Spain and Latin America

3. ESADEgeo: An agenda of activities on Sovereign Wealth Funds.
The rebalancing of world is happening today

Ten years ago the world was so different: the BRIC decade
Gross domestic product based on purchasing-power-parity (PPP) share of world total
Source: IMF Economic Outlook (April, 2011)
Shifting away from OECD? South South FDI

South South FDI surpasses for the first time South North FDI, in 2010. South South Cross border M&A deals got a new record by 2010.

FDI outflows from developing countries, by destination
Source: World Bank (2011), based on Thomson-Reuters

Cross border M&A deals from emerging markets, by destination
Source: World Bank (2011), based on Thomson-Reuters
Shifting away from OECD? South South FDI

Growth in cross-border deals will ouptpace expected emerging-market GDP annual growth rates of 4.9 percent over 2010–20 and 4.1 percent over 2020–25

Projected emerging-market outbound cross-border deals through 2025
Source: World Bank, 2011

Selected bilateral M&A flows from home to host economies, 2007
Source: World Bank, 2011
Shifting away from OECD? South-South FDI
Chinese booming FDI in Latin America

2010 single-year results are more than doubling the last 20 years of FDI
Source: Economic Commission for Latin America and the Caribbean (ECLAC), estimates on the basis of information from Thomson Reuters, fDi Markets [online]
http://www.fdimarkets.com/ and interviews with representatives of the respective companies.

<table>
<thead>
<tr>
<th>Country</th>
<th>Confirmed investments 1990-2009</th>
<th>2010</th>
<th>Investments announced 2011 onwards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>143</td>
<td>5 550</td>
<td>3 530</td>
</tr>
<tr>
<td>Brazil</td>
<td>255</td>
<td>9 563</td>
<td>9 870</td>
</tr>
<tr>
<td>Colombia</td>
<td>1 677</td>
<td>3</td>
<td>...</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>13</td>
<td>5</td>
<td>700</td>
</tr>
<tr>
<td>Ecuador</td>
<td>1 619</td>
<td>41</td>
<td>...</td>
</tr>
<tr>
<td>Guyana</td>
<td>1 000</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Mexico</td>
<td>127</td>
<td>5</td>
<td>...</td>
</tr>
<tr>
<td>Peru</td>
<td>2 262</td>
<td>84</td>
<td>8 640</td>
</tr>
<tr>
<td>Venezuela (Bolivarian Republic of)</td>
<td>240</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Total</td>
<td>7 336</td>
<td>15 251</td>
<td>22 740</td>
</tr>
</tbody>
</table>
Shifting away from OECD? South South FDI
Chinese booming FDI in Latin America

Latin America and the Caribbean: Cross-border acquisitions over 3,000 million dollars, 2010
Source: ECLAC (2011)

<table>
<thead>
<tr>
<th>Company or asset acquired</th>
<th>Country</th>
<th>Sector</th>
<th>Buyer</th>
<th>Country</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vivo (Brasilcel NV)</td>
<td>Brazil</td>
<td>Telecommunications</td>
<td>Telefónica SA</td>
<td>Spain</td>
<td>9 742.79</td>
</tr>
<tr>
<td>FEMSA-Operación cervecer</td>
<td>Mexico</td>
<td>Beverages/liquors</td>
<td>Heineken</td>
<td>Netherlands</td>
<td>7 325.02</td>
</tr>
<tr>
<td>Repsol YPF Brasil SA</td>
<td>Brazil</td>
<td>Oil/gas</td>
<td>Sinopec Group</td>
<td>China</td>
<td>7 111.00</td>
</tr>
<tr>
<td>State oil company Carabobo</td>
<td>Venezuela (Bolivarian</td>
<td>Oil/gas</td>
<td>Indian Oil, Oil India,</td>
<td>India</td>
<td>4 848.00</td>
</tr>
<tr>
<td></td>
<td>Republic of)</td>
<td></td>
<td>Petronas y Repsol YPF</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bridas Corp</td>
<td>Argentina</td>
<td>Oil/gas</td>
<td>CNOOC Ltd</td>
<td>China</td>
<td>3 100.00</td>
</tr>
</tbody>
</table>

In 2011, Export-Import Bank of China (China Eximbank) will launch a yuan-denominated fund to invest in developing infrastructure. China Eximbank will partner with the Inter-American Development Bank. The fund amount will be US$ 1 billion.
Shifting away from OECD? The case of SWF flows
The crisis reversed the trend, but it is back again

Value of SWF Deals by Location of Target: OECD vs. Emerging Markets
Source: Monitor-FEEM SWF Transaction Database (2011)
Note: Publicly available data for SWF equity & real estate deals, joint ventures and capital injections
Shifting away from OECD? The case of SWF flows
A good reason: Massive Hit in their OECD Investments…

Performance of Notable Sovereign Funds Investments

Shifting away from OECD? The case of SWF flows
A good reason: Massive Hit in their OECD Investments…

SWFs invested $200 billion or 10% of their total assets in the financial sector since 1953.

**SWF investments by sector**

- **Finance**
- **Real estate**
- **Energy**
- **Services**
- **Technology**
- **Infrastructure**
- **Industry**
- **Other**
- **Defence**
- **Agriculture**

**Investment performance**

Share prices of major banks with SWF investment, 01 Jan 07=100

Note: DB=Deutsche Bank, ML=Merrill Lynch, MS=Morgan Stanley, CG=Citigroup, BA=Barclays, CS=Credit Suisse, UBS

Source: Based on DB Research.
Shifting away from OECD? The case of SWF flows
A good reason: Massive Hit in their OECD Investments…

Fall in value for GCC Funds

Losses as Share of 2007

### SWF Asset Allocation

Source: Dyck and Morse (2011)

<table>
<thead>
<tr>
<th>Region</th>
<th>Public Equity</th>
<th>Private Equity</th>
<th>Real Estate</th>
<th>Total</th>
<th>Excess over Capitalization</th>
<th>Excess over Pension Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia (excl Japan &amp; Middle East)</td>
<td>0.251</td>
<td>0.314</td>
<td>0.039</td>
<td>0.230</td>
<td>0.094</td>
<td>0.195</td>
</tr>
<tr>
<td>Europe</td>
<td>0.327</td>
<td>0.161</td>
<td>0.053</td>
<td>0.227</td>
<td>-0.113</td>
<td>-0.012</td>
</tr>
<tr>
<td>Latin America</td>
<td>0.011</td>
<td>0.000</td>
<td>0.001</td>
<td>0.006</td>
<td>-0.051</td>
<td>0.001</td>
</tr>
<tr>
<td>Middle East &amp; Africa</td>
<td>0.248</td>
<td>0.493</td>
<td>0.781</td>
<td>0.368</td>
<td>0.348</td>
<td>0.358</td>
</tr>
<tr>
<td>North America</td>
<td>0.208</td>
<td>0.016</td>
<td>0.095</td>
<td>0.130</td>
<td>-0.164</td>
<td>-0.370</td>
</tr>
<tr>
<td>Pacific</td>
<td>0.055</td>
<td>0.015</td>
<td>0.032</td>
<td>0.039</td>
<td>-0.115</td>
<td>-0.073</td>
</tr>
<tr>
<td>Total</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Asset Class Total</td>
<td>0.520</td>
<td>0.296</td>
<td>0.187</td>
<td>1.003</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

### Benchmark Allocation

<table>
<thead>
<tr>
<th>Capitalization Benchmark Allocations</th>
<th>Public Equity</th>
<th>Private Equity</th>
<th>Real Estate</th>
<th>Total</th>
<th>Pension Fund Benchmark Allocations</th>
<th>Public Equity</th>
<th>Private Equity</th>
<th>Real Estate</th>
<th>Total</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia (excl Japan &amp; Middle East)</td>
<td>0.120</td>
<td>0.164</td>
<td>0.077</td>
<td>0.136</td>
<td>0.034</td>
<td>0.117</td>
<td>0.035</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td>0.296</td>
<td>0.351</td>
<td>0.391</td>
<td>0.339</td>
<td>0.268</td>
<td>0.223</td>
<td>0.239</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Latin America</td>
<td>0.029</td>
<td>0.078</td>
<td>0.040</td>
<td>0.056</td>
<td>0.005</td>
<td>0.004</td>
<td>0.005</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Middle East &amp; Africa</td>
<td>0.018</td>
<td>0.019</td>
<td>0.025</td>
<td>0.020</td>
<td>0.011</td>
<td>0.007</td>
<td>0.010</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>North America</td>
<td>0.416</td>
<td>0.206</td>
<td>0.322</td>
<td>0.294</td>
<td>0.550</td>
<td>0.635</td>
<td>0.500</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pacific</td>
<td>0.120</td>
<td>0.181</td>
<td>0.135</td>
<td>0.154</td>
<td>0.132</td>
<td>0.015</td>
<td>0.112</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset Class Total</td>
<td>0.324</td>
<td>0.516</td>
<td>0.160</td>
<td>1.000</td>
<td>0.846</td>
<td>0.054</td>
<td>0.100</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>
Shifting away from OECD? The case of SWF flows
Brazilian BTG Pactual case

Underlines the shift in the funds’ focus away from western economies and towards emerging markets. It is the main joint SWF operation in emerging markets so far.

Source: Financial Times (December 6, 2010)
An increased interest for frontier markets: 
The Example of China Africa Development Fund

CADF’s Projects include the Shenzhen Energy 500 megawatt thermal power project in Ghana; the China Union iron ore deal in Liberia, rehabilitating the Bong Mine; the Angel Yeast $51 million project in Egypt which values the Fund’s high-level backing, useful for winning permits, perhaps more than its $2 million investment.

The UAE already has ambitious plans to establish agricultural production centres in Sudan and Pakistan. The Abu Dhabi Fund for Development intends to develop 70,000 acres of land for food production in Sudan.

The China Investment Corporation might be working with Vallar, the UK coal holding company run by Nat Rothschild, on a joint investment. Where might this investment take place? Mongolia

Temasek Holdings is in talks to pump funds in an attempt to resurrect Sri Lankan airlines and some of the loss making public enterprises including Ceylon Electricity Board.

Sources: China Development Bank’s Website, African Capital Markets News, Reuters, Emirates 24|7
An increased interest for frontier markets: Temasek bet on Africa’s telecommunications sector

In 2007, Temasek invested $2 billion in Bharti Airtel, the biggest mobile operator in India, with a Market Capitalization of $27.1 Bn, and #453 in Forbes Global 2000 list in 2011. Bharti Airtel operated the largest takeover ever in Africa: $9 bn for Zain Africa.

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Sovereign Wealth Funds Looking to Spain or to Latin America? Norges Bank Investment Management Case

NBIM
Norges Bank Investment Management

NBIM Investment in Spanish listed firms ($bn)

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>3.4</td>
</tr>
<tr>
<td>2010</td>
<td>5.5</td>
</tr>
</tbody>
</table>

- Fixed Income: 12.75
- Equity: 5.5

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Looking towards Spain or Latin America? Norges Bank Investment Management Case

Where is it investing its $bn 5.5 Spanish portfolio?
Source: NBIM (million dollars)

- Telefónica
- Santander
- Iberdrola
- BBVA
- Others (76 firms & Repsol)
A two-step approach to emerging markets
Going through Spain in order to reach Latin America

Qatar Investment Authority (QIA)
- 5% in Santander
- 6.2% in Iberdrola
- 100% in CEPSA
- 71%* in Aermnova

* Still in process operation
Win-Win Strategy
The Qataris and Spaniards aim to tap opportunities in emerging markets’ power sectors, including Qatar’s. Iberdrola will place its regional headquarters and research facilities in Doha, and the Spanish company will use the Qatari capital to finance several transactions (Elektro acquisition among others).
... A two-step approach to emerging markets

go Spain to reach Latin American markets (potential new investments)

(1) LatAm Revenue / Total Revenue (%)
(2) Gross Income Americas & Asia / Total Gross Income (%)
(3) Net Profit LatAm / Net profit Total (%)

Source: ESADE Business School 2011, based on 2010 Company Reports.
1. Sovereign Wealth Funds: looking towards emerging markets

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Which are our main strengths?

High capital intensity
High-tech industries
High energy requirements
Low labor intensity
High logistics dependency

Which industries are the most suitable given our strengths?

Metals industry (Aluminium Raw Materials, Alloys and Ingots)
Aerospace industry (Composite, Carbon Fiber and Titanium Production)
In 2006, Mubadala became shareholder in Piaggio, a leading aeronautics firm specializing in the production of executive aircraft, engine parts and structural components.

It also owns top composite producers (STRATA) and MRO global firms (SR Technics), and recently acquired Spanish global aerostructures company (Aernnova)
Business Case Studies: Best Practices and Network Mappings
Temasek: A Key Driver of Singapore Development


Note: Arrows: equity stake hold by Temasek; Rectangles: total company market value (# rank in Singaporean companies by Forbes, 2011)
## Business Case Studies: Best Practices and Network Mappings

**Khazanah Nasional: A catalyst of Malaysia Corporate Development**

<table>
<thead>
<tr>
<th>Company</th>
<th>Market value</th>
<th>Equity stake (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIMB Group</td>
<td>$20 bn (# 2)</td>
<td>29 %</td>
</tr>
<tr>
<td>Tenaga Nasional Berhad</td>
<td>$11 bn (# 3)</td>
<td>36 %</td>
</tr>
<tr>
<td>Axiata</td>
<td>$13 bn (# 6)</td>
<td>39 %</td>
</tr>
</tbody>
</table>


Note: (# rank in Malaysian global companies by Forbes, 2011)
Temasek: Moving away from OECD investments towards emerging countries

Portfolio growth and geographic allocation (%)

1Mexico is classified under “OECD Economies” in 2004 and under “Latin America and Others” in 2009.
2Excluding Singapore and Japan
3Excluding Korea, Mexico and Chile
More research on SWF
How are institutional issues affecting asset allocation decisions?

Brazil’s Government Indicators have improved substantially, and it is attracting a lot of SWF investments… is it a direct implication? (Then, China size effect?)

Worldwide Governance Indicators
Source: World Bank, 2011

Value of SWF Deals in 2010 (by target country)
Source: Monitor, 2011 ($ millions)

VA=Voice and Accountability
PV= Political Stability No Violence
GE= Government Effectiveness
RE= Regulatory Quality
RL= Rule of Law
CC= Control of Corruption

* Estimated value: real data is probably higher
Business Case Studies: Ethics on SWF
Libyan Investment Authority: Dangerous liaison

 паракетела Libyan Investment Authority

<table>
<thead>
<tr>
<th>Company</th>
<th>Stake (m USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson</td>
<td>$335 m</td>
</tr>
<tr>
<td>UniCredit</td>
<td>$830 m</td>
</tr>
<tr>
<td>Siemens</td>
<td>$480 m</td>
</tr>
<tr>
<td>Eni</td>
<td>$590 m</td>
</tr>
<tr>
<td>Rusal</td>
<td>$300 m</td>
</tr>
<tr>
<td>BNY Mellon</td>
<td>$500 m</td>
</tr>
<tr>
<td>Societe Generale</td>
<td>$1000 m</td>
</tr>
<tr>
<td>Nomura</td>
<td>$500 m</td>
</tr>
</tbody>
</table>

LIA’s assets under management
LIA’s equity stakes as of June, 2010

Source: Global Witness, 2011
Long Term Investors Annual Conference

- Proposed discussion issues:
  - Africa and Latin America on the Rise
  - South-South Peer Learning: Asia/Middle East towards Africa/Latin America
  - Best practices from the South: Chile; Singapore; United Arab Emirates.

- Peer to Peer Style meetings: Annual Conference and Executive Program

- Keynote speakers: from in-making arena to theorists, from public to private, from developed to emerging countries, from strategic to financial funds…