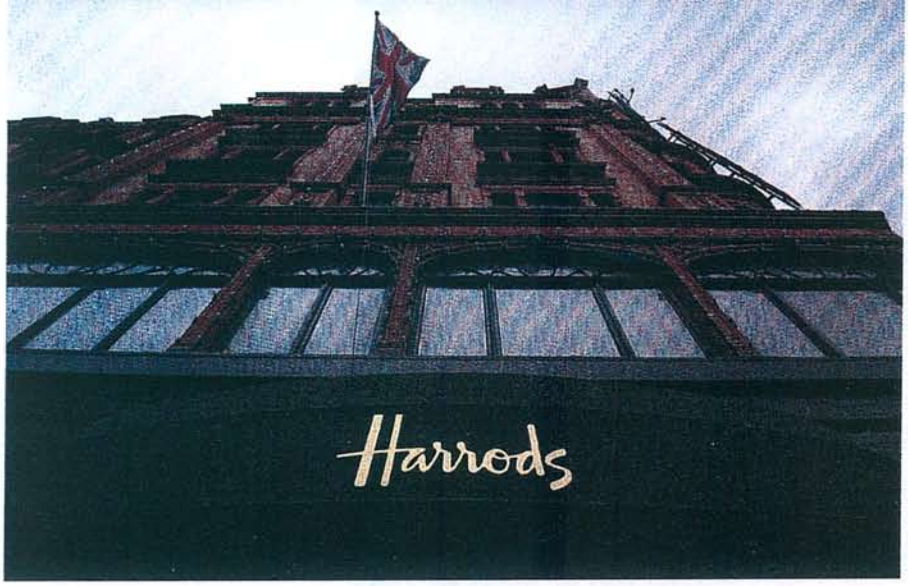

LEFT: THE INVESTMENT VEHICLE OF QATAR'S ROYAL FAMILY HAS BOUGHT FAMOUS LONDON DEPARTMENT STORE HARRODS FROM EGYPTIAN-BORN BUSINESSMAN MOHAMED AL FAYED IN A DEAL REPORTED TO BE WORTH US$2.3BN

Financial muscle

Sovereign Wealth Funds remain growing players in global finance

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Even though sovereign wealth funds (SWFs) have started to be drawn into the spotlight in the past few years, they have been around for decades. In fact, the first official SWF was set up by the Kuwaiti government in 1953, with the inception of the Kuwaiti Investment Board. The expansion of the SWF was noticeable in the 1970s with the creation of Temasek Holdings in Singapore (1974), the Abu Dhabi Investment Authority (ADIA) (1976) and, subsequently, in the 1990s, with the inception of the Norwegian Government Petroleum Fund and the Iran Stabilization Fund.

At present, there are approximately 40 SWFs. The largest in the world are ADIA (with estimated assets of US$875bn), the Government of Singapore Investment Corporation (US$330bn), and the Norwegian Government Pension Fund (US$308bn) (Abana Review).

Booming exports and soaring oil prices have swollen SWFs to what some estimate is US$3trn in assets, larger than the entire hedge fund industry, but still smaller than either global pension funds or insurers (*The National*).

THE 2007 TO 2008 WAVE

Between autumn 2007 and winter 2008 US financial institutions eagerly solicited capital from SWFs. In October 2008 the treasury department deputy secretary Robert Kimmitt toured the Middle East to seek additional SWF investments to assist capital-deprived American corporations.

The effort proved successful; in 2007 SWFs invested US$77.7bn globally, while in 2008 investments amounted to US$47.2bn, 32.7bn of which were invested in financial institutions (Davidoff).

The first notable SWF investment of the 2007 to 2008 wave was made in Blackstone in May 2007 by China Jianyin Investment Company, which purchased 9.3 per cent (non-voting) interest in Blackstone for US$3bn. That investment marked China's first sovereign wealth investment and heralded the formation on September 29, 2007, of an official Chinese SWF, the China Investment Corp Ltd (Davidoff).

In September 2007, Mubadala purchased 7.5 per cent interest in Carlyle Group for US$1.35bn. By the end of January 2008 Morgan Stanley, Merrill Lynch and Citigroup raised US$37.8bn, three quarter of which came from SWFs (US Govt accountability Office).

Financial institutions were clearly the number one target for SWFs; in fact in 2008 SWFs invested US$32.7bn globally in the industry; dwarfing SWFs' investments in other sectors, including oil and gas (US$7.1bn) and real estate (US$4.4.bn) (Dealogic Database).

Minority investors, silent investors, holding non-voting shares, without representation on the boards, seeking relatively safe and low returns: that's how SWF investments are commonly described. If we look at some of the high-profile deals they made recently, the truth is that, looking at the bigger picture, SWFs are not so passive and do not limit themselves to the role of minority shareholders.

A study by Monitor, a consultancy firm, found that more than half of the equity transactions made by SWFs since 2000 had resulted in them acquiring a controlling stake, belying their claim they were merely passive investors.

Also, it is interesting to note that SWFs do not only make direct investments in target companies, they also invest in hedge funds, private equity firms and other highly leveraged financial institutions. In effect, sovereign wealth funds are providing the capital that those firms subsequently leverage to generate high rates of return for the funds. They are no different from other investors except that their stakes may be measured in the billions rather than in the hundreds of millions of dollars (Peterson Institute).

BRIGHT FUTURE

SWFs sometimes raise concerns with western politicians and public opinion as they are believed to be a potential threat if they acquire stakes in a country's strategic sectors. The US reaction to the announced acquisition of P&O by Dubai Ports is a typical example.

However, an analysis of publicly-reported equity market transactions involving SWFs since January 2000 found that investments in transportation, defense, aerospace and high technology made up less than one per cent of the value of deals tracked (Monitor).

Also, in October 2008, the International Working Group of Sovereign Wealth Funds published the so-called *Santiago Principles*. Based on the open practices of the Norwegian fund, the *Santiago Principles* set out governance and accountability arrangements, as well as the conduct of investment practices by SWFs on a prudent and sound basis.

More transparency and disclosure will certainly help the west to accept that SWFs are motivated by economic reasons, whose long-term investments and willingness to diversify make them indispensable players of today's finance.

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