

Assessing the Risks

THE BEHAVIORS OF SOVEREIGN WEALTH FUNDS IN THE GLOBAL ECONOMY

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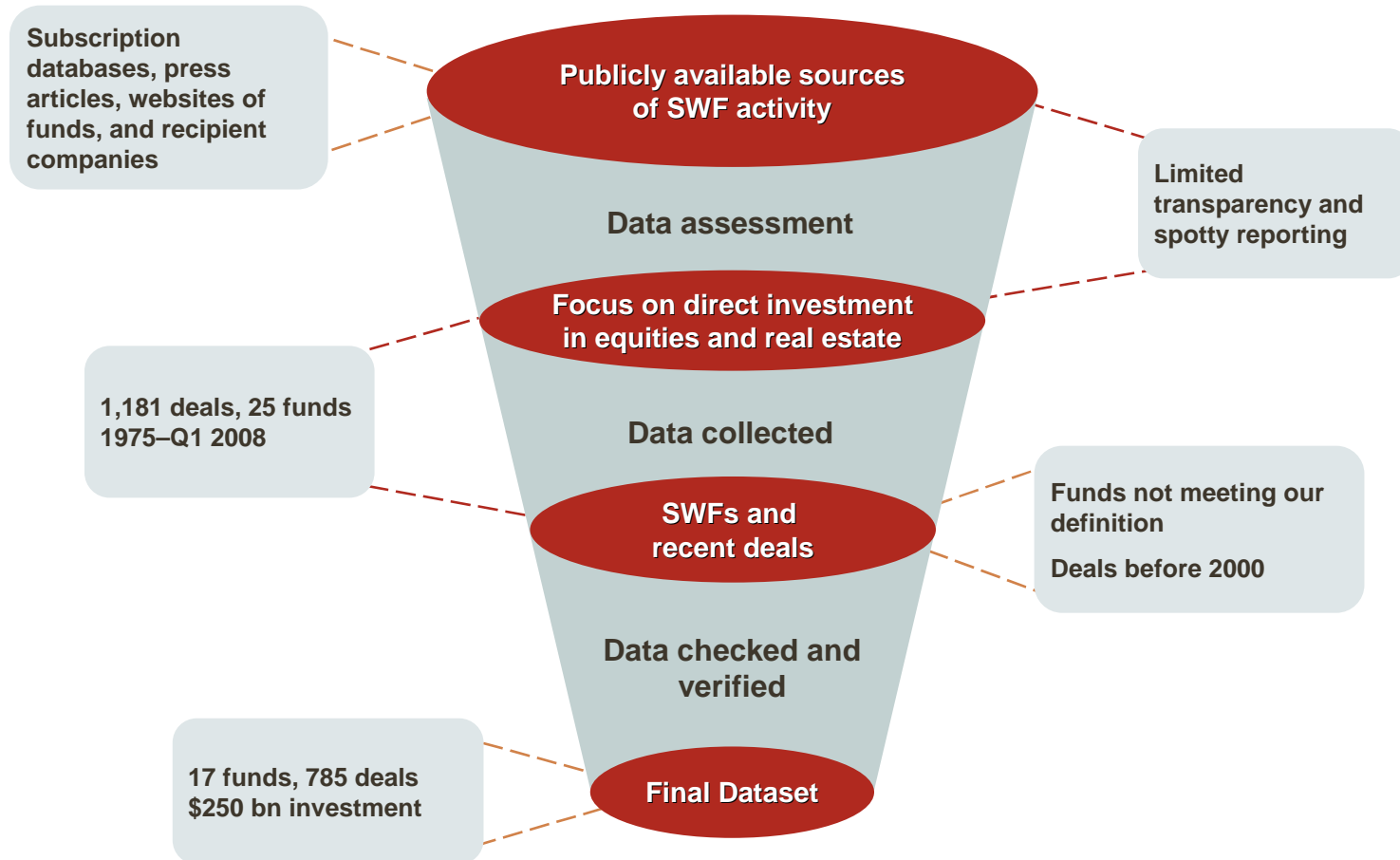
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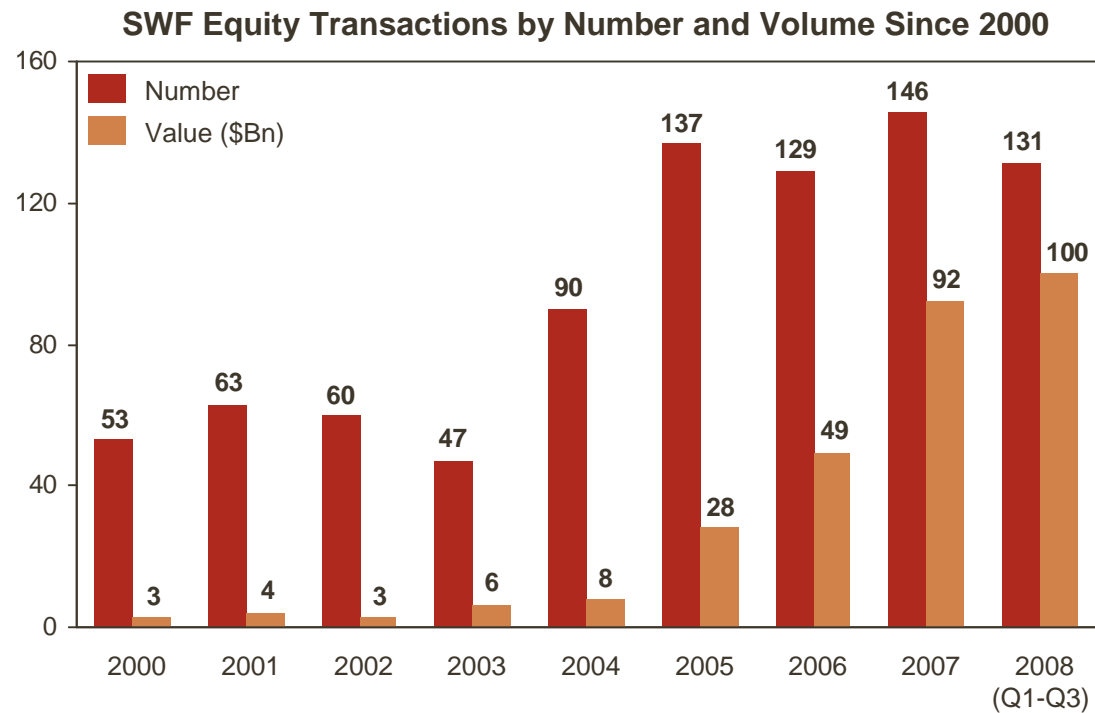
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Monitor SWF Transaction Database: Methodology



Recent SWF Investments by Year

Since 2000, there has been a marked increase in SWF direct investment in equities and real estate.

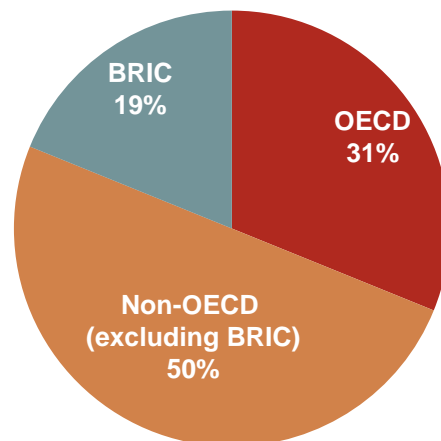


Note: Publicly available data for SWF equity deals
Source: Monitor SWF Transaction Database

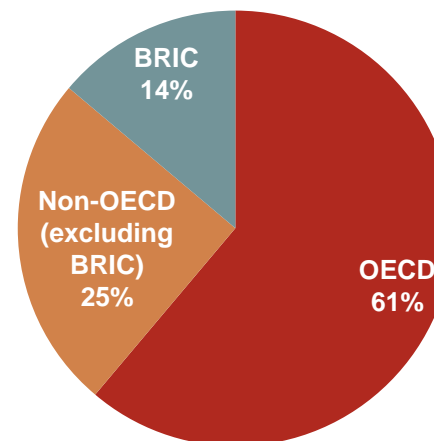
SWF Investment by Area

Since 2000, some two thirds of SWF investment by value has been in the OECD. However, two thirds of the deals by number were in emerging markets.

Number of Deals by Region
(785 deals)



Value of Deals by Region
(\$250 Bn)

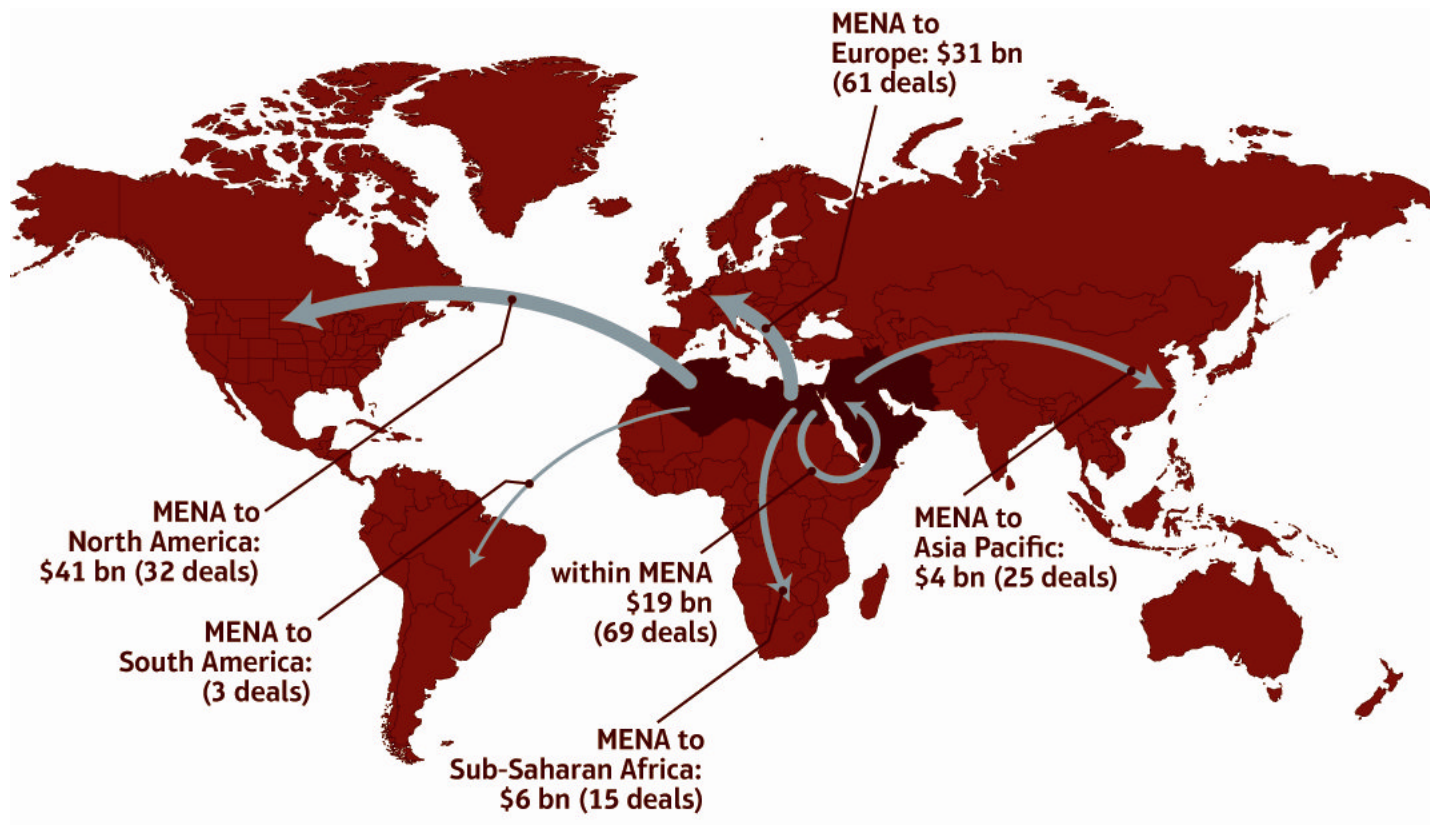


Note: Publicly available data for SWF equity deals 2000-Q1 2008
Source: Monitor SWF Transaction Database

Investment Flows: Middle East and North Africa (MENA)

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Since 2000, funds based in MENA have invested \$100 billion in 205 deals. \$73 billion has gone to North America and Europe, but this accounted for fewer than half the deals.

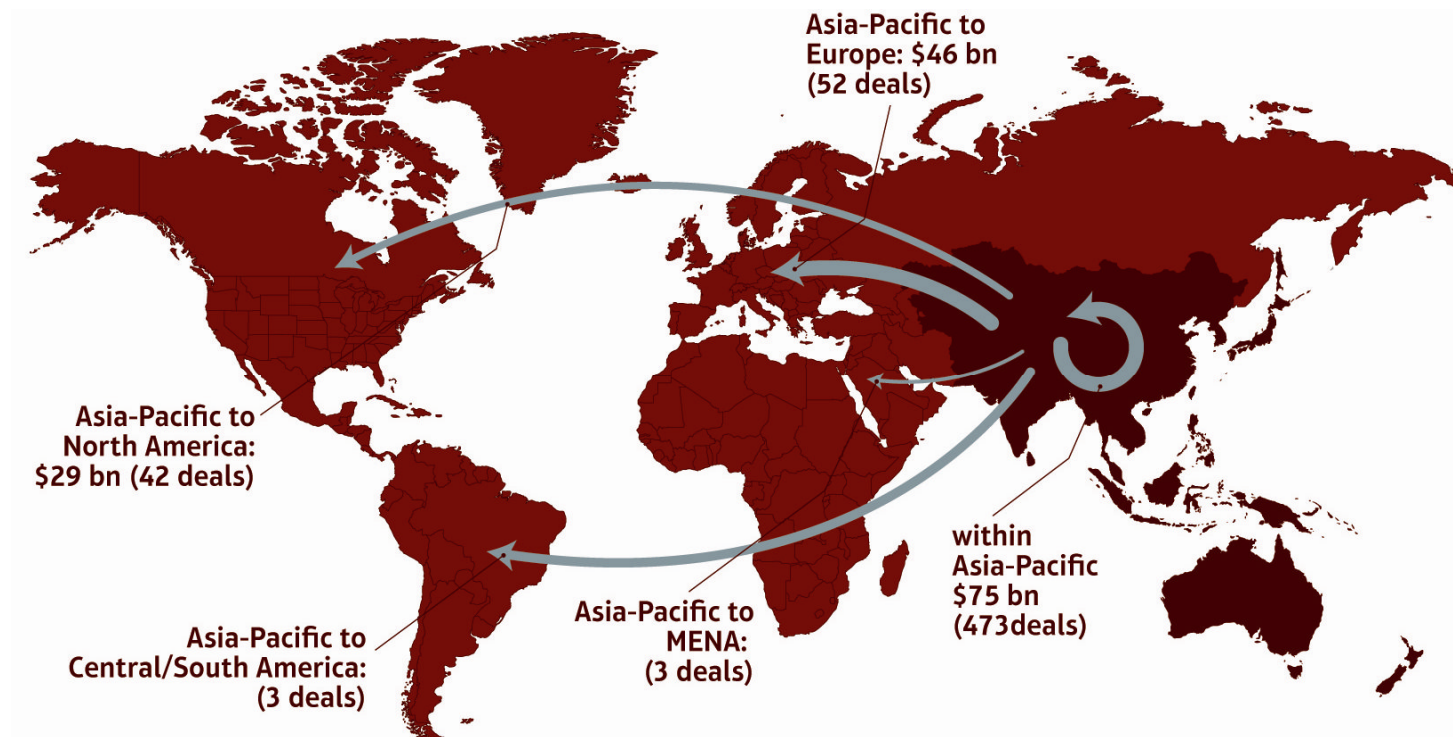


Note: Publicly available data for MENA SWF equity deals 2000-Q1 2008

Source: Monitor SWF Transaction Database

Investment Flows: Asia-Pacific

Since 2000, Asian SWFs invested \$150 billion in 573 deals. These invest more heavily in their own region; half of the total investment by value and some 80% of deals by number took place in Asia.

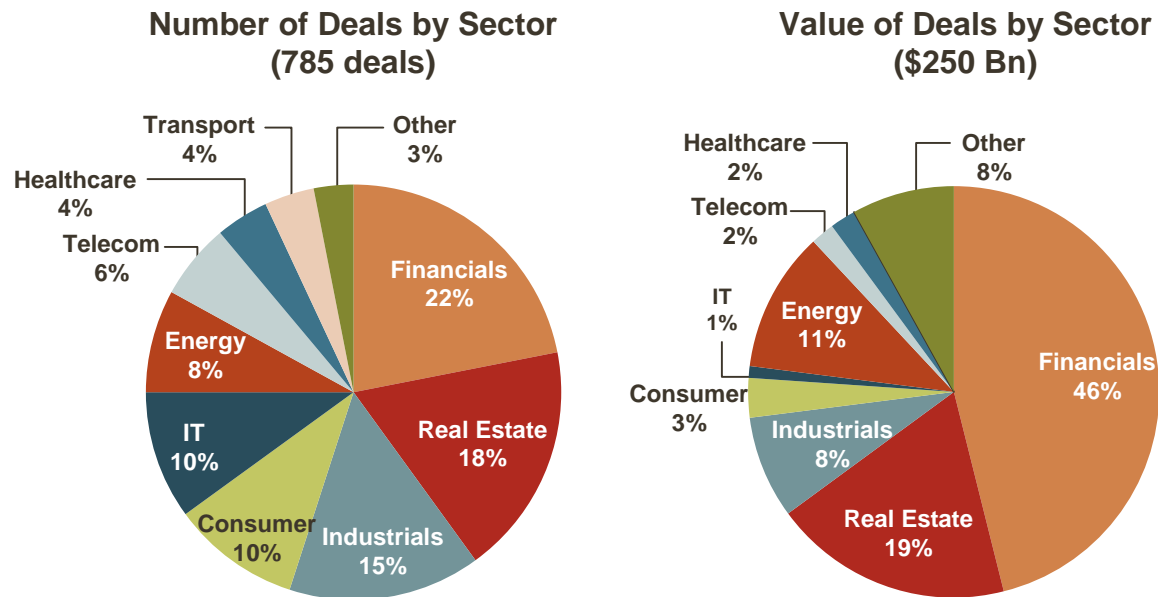


Note: Publicly available data for Asia-Pacific SWF equity deals 2000-Q1 2008

Source: Monitor SWF Transaction Database

SWF Investment by Sector

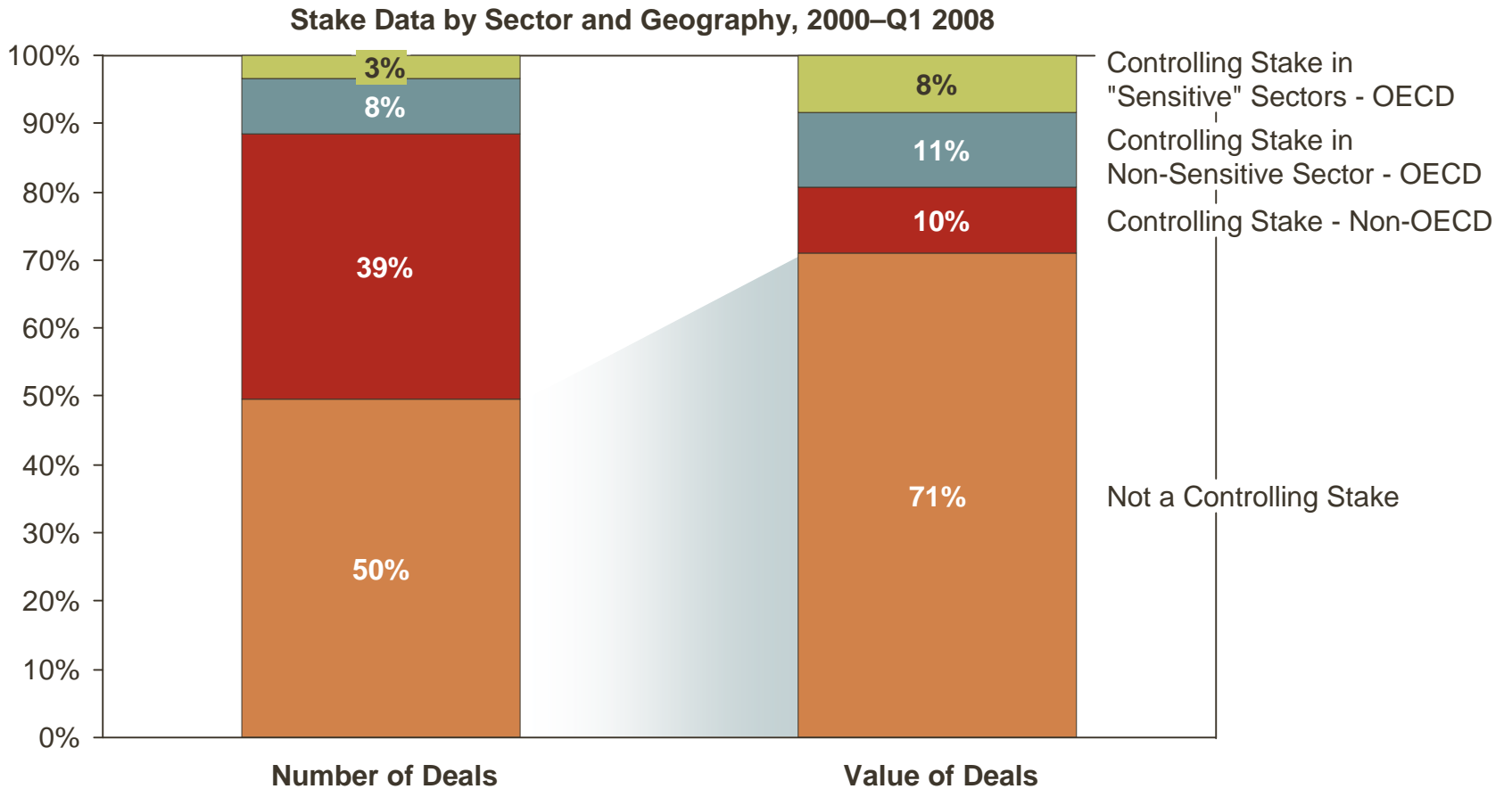
By number of deals, SWFs invest across sectors, including financial services, real estate, industrials, consumer and IT. However, by value, almost half the deals are in financial services, which reflects atypical intensity of investment in that sector during the sub-prime mortgage crisis during 2007 and early 2008.



Note: Publicly available data for SWF equity deals 2000-Q1 2008
 Source: Monitor SWF Transaction Database

SWF Investment: Analyzing Ownership and Control

Contrary to popular opinion, SWFs do take controlling stakes, however they rarely do so in OECD markets.



Notes: Sensitive sectors include Energy & Utilities, Financials, Information Technology, Infrastructure and Government, Telecom, and Transportation & Aerospace
 Source: Monitor SWF Transaction Database

Summary of Findings on Investment Behavior of SWFs

1

SWFs invest heavily in domestic and emerging markets. A majority of SWF investments by value occur in OECD markets, although the proportion is magnified by recent large investments during the credit crunch of 2007–2008. More than half of all transactions by number have occurred in domestic and emerging markets.

2

Recent SWF investments in U.S. and European financial services firms are atypical and opportunistic, reflecting the credit crunch of 2007–2008. Most SWF investments have occurred in financial services, real estate, and industrial companies, with most publicity focused on financial services. Controlling for the effects of the recent credit crunch, the apparent appetite for investment in this sector drops markedly, though it remains significant.

3

SWFs are willing to take controlling stakes in companies. In contrast to prevailing views, since 2000, SWFs have acquired controlling stakes in half of their transactions for which stake data are available. By far most of these deals occurred in emerging markets and in sectors not generally deemed politically sensitive.

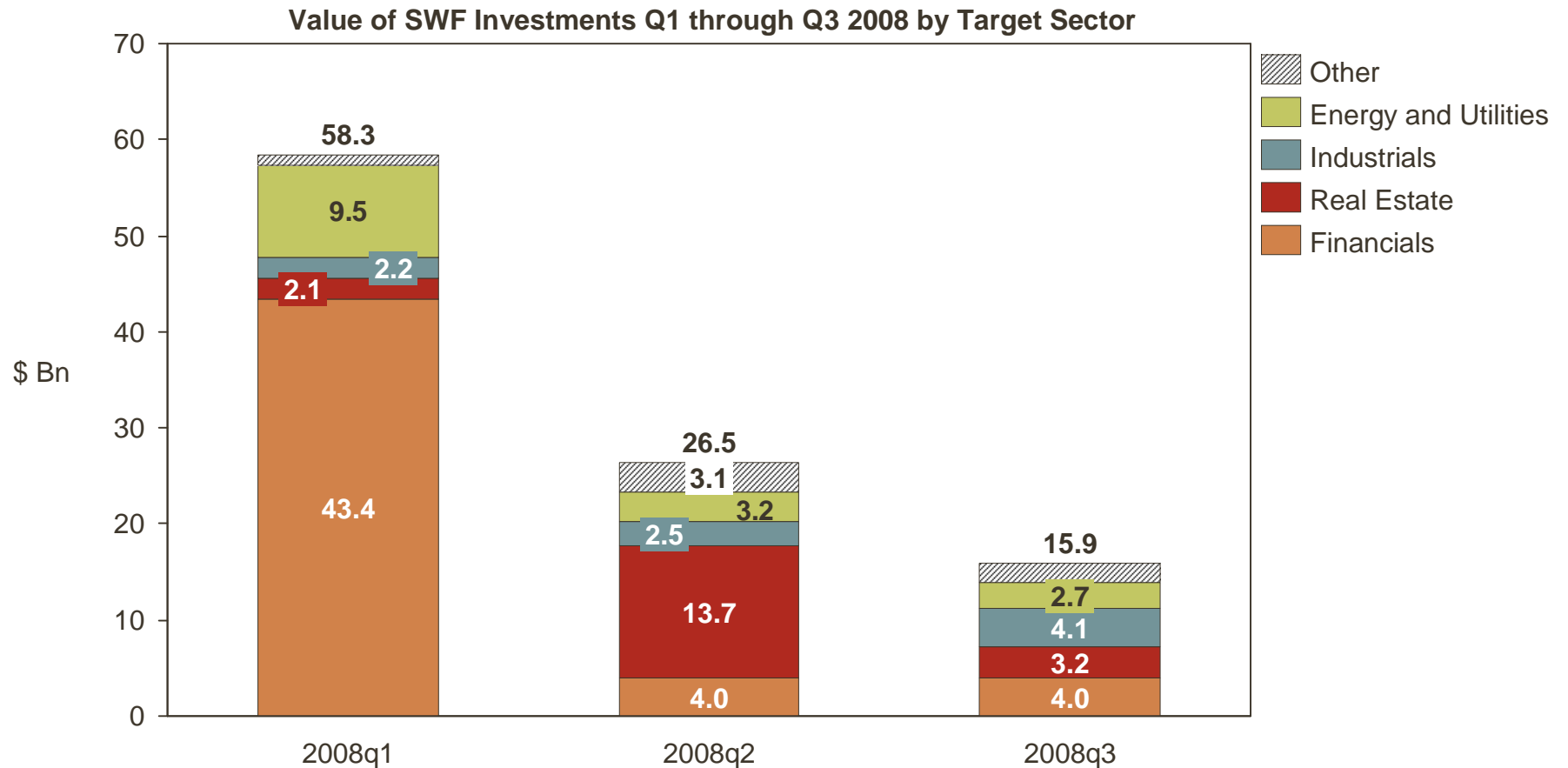
4

SWFs are taking more financial risk with their investments. Most SWFs are adjusting their portfolios to combine conservative and relatively liquid asset classes, such as government bonds, with higher-risk, illiquid assets such as equities, real estate, and alternative instruments.

5

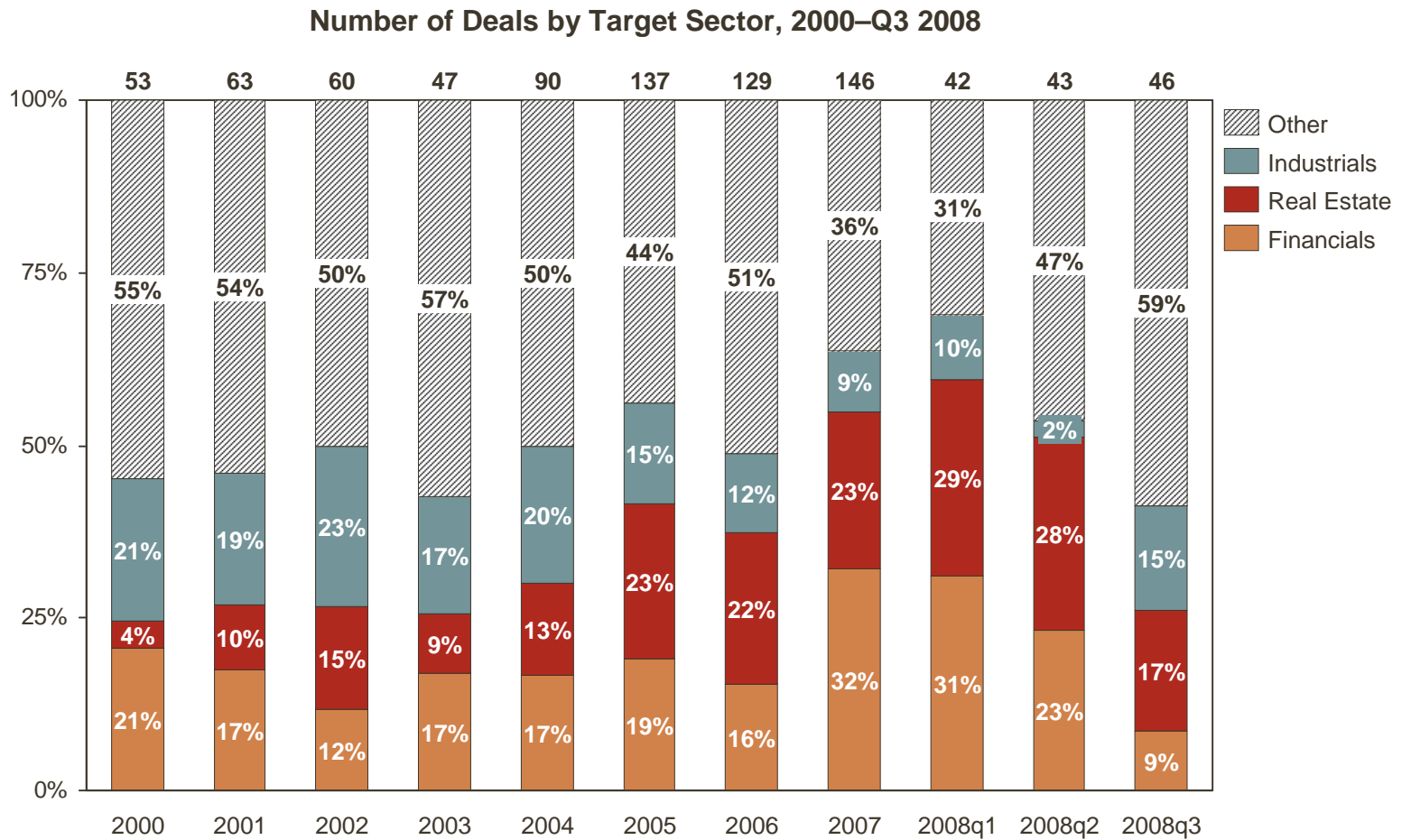
SWFs do not appear to be investing for political motives. Some funds are making strategic investments to hasten economic development in their home country, but they do not appear to be active in ways that threaten the economic or national security of foreign countries where they invest.

Recent SWF Behavior: Q1 Through Q3 2008, by Target Sector



Note: Publicly available data for SWF equity deals
 Source: Monitor SWF Transaction Database

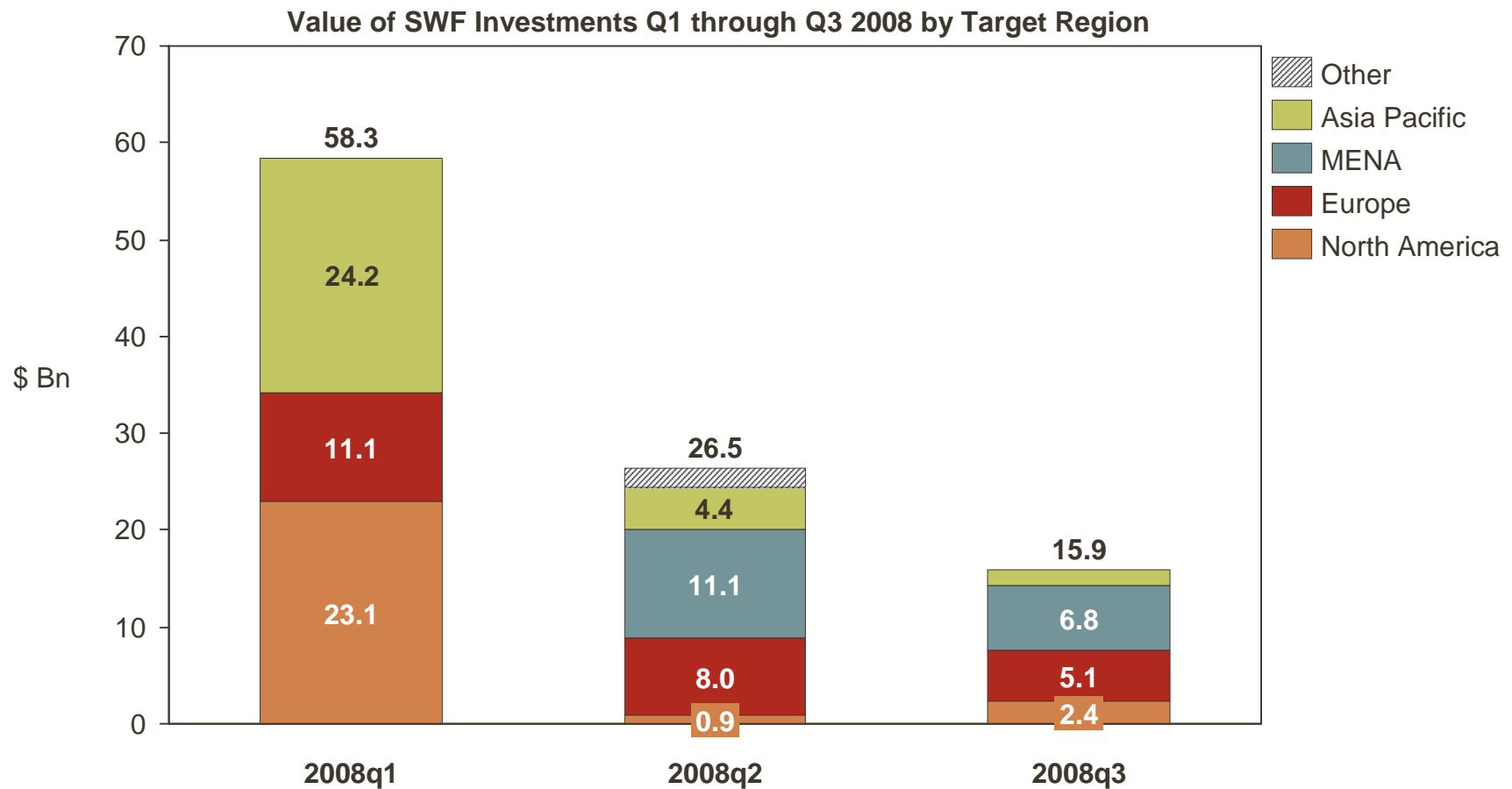
SWF Investment by Target Sector



Note: Publicly available data for SWF equity deals 2000-Q3 2008

Source: Monitor SWF Transaction Database

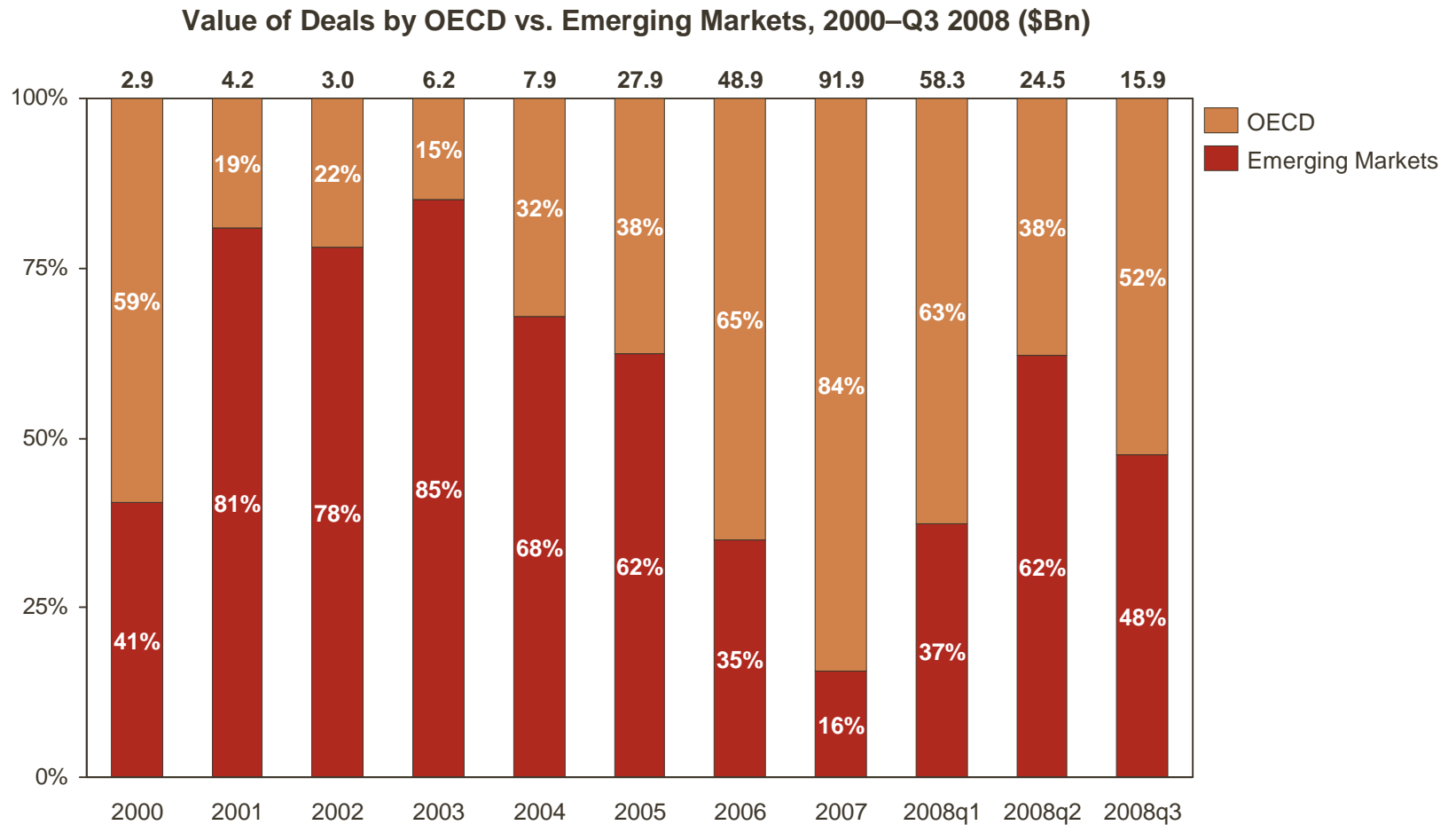
Recent SWF Behavior: Q1 Through Q3 2008, by Target Region



Note: Publicly available data for SWF equity deals
 Source: Monitor SWF Transaction Database

SWF Investment by Location of Target: OECD vs. Emerging Markets

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Note: Publicly available data for SWF equity deals 2000-Q3 2008

Source: Monitor SWF Transaction Database

2008 Q2 and Q3 Highlights

1

In the third quarter of 2008, funds in the Monitor SWF Transaction Database executed 46 deals totaling \$15.9 billion. This is a decline from 58.3 billion in Q1, and 26.5 in Q2, during which period the total number of deals per quarter was similar.

2

Investment in financial sector targets has fallen off significantly since Q1; real estate investment, which spiked up in Q2, also dropped sharply in Q3. Financials comprised \$43.4 billion of deal value in Q1, compared to \$4 billion each in Q2 and Q3. Real Estate deals were \$3.2 billion in Q3 (16% of the total), compared to \$13.7 billion (52%) in Q2 2008.

3

Investment in North America dropped dramatically. In Q3 North American targets were involved in 7 SWF deals totaling \$2.4 billion; in Q2 the totals were 4 deals and less than \$1 billion invested. In contrast, there 7 North American deals totaling \$23 billion during Q1 2008. Overall, investment in OECD countries has declined sharply during 2008, from \$37 billion in Q1 to \$9 billion in Q2 and \$8 billion in Q3

4

SWF recent behavior shows a marked shift toward domestic and emerging markets deals. 46% of reported deals in Q3 were domestic transactions, the highest percentage since 2003. Also, 54% of Q2 and Q3 deals by value (\$23 billion out of \$42 billion) were in emerging markets, the highest share of total deal value since 2005.

5

SWFs from the MENA region were the most active in Q3, carrying out some 90% of the deals by value. Asian and European SWFs were much less active in Q3 2008 than in previous years.