



# SOVEREIGN WEALTH FUNDS REPORT

## *THE CHANGING LANDSCAPE FOR SOVEREIGN WEALTH FUNDS*

After a period during which sovereign wealth funds (“SWFs”) continuously made headlines by their involvement in a number of high-profile investments in Western companies and, in particular, major U.S., Swiss and U.K. banks, the recent decline in comparable transactions has raised the question to what extent SWFs will continue to be active in the international markets in light of heavy losses across the board. In this report, we look at the impact of the current financial crisis on SWFs and examine the continued efforts to expand their portfolios while shifting their focus and priorities.

### **Market Size and Growth**

A recently published report by International Financial Services London (“IFSL”) estimates that assets under management of SWFs worldwide increased by 18% in 2008, to reach a total of \$3.9 trillion. While this growth rate is projected to drop over the coming years due to the fall in commodity prices – in particular the fall in the price of oil – as well as the global economic downturn in general, IFSL believes that SWFs remain likely to double in size to approximately \$8 trillion by 2015.

These figures suggest that the losses suffered by certain SWFs since the beginning of the financial crisis may have been subsequently offset by the continued influx of capital from various funding sources, including from Central Bank reserves in Asia and the Middle East, and from current account surpluses in many emerging markets, such as China and Russia.

### **Investment Trends**

In terms of investment activity, SWFs from Asia have traditionally been among the most active investors of all SWFs, accounting for 66% of such transactions reported since 1995 – followed by SWFs from the Middle East. Over the past 10-15 years, a majority of SWFs have targeted investments in North American and European companies. Specifically, investments in the financial sector have been the most prominent, reaching a total of \$92 billion, or 77.4% of all SWF investments, in the last 2 years.

Despite the high level of investment in recent years, current trends indicate that SWF investments in North American and European financial companies have reached their peak. SWFs appear to have shifted their investment focus towards increasing portfolio diversification and targeting domestic markets.

### **Portfolio Diversification**

Many of the SWF investments in the financial sector were large, single investments undertaken by a small number of SWFs. The heavy losses incurred over the last year by these SWFs with respect to some of these investments, coupled with the continued unpredictability of the global financial markets, have exposed the need for SWFs to achieve more balanced portfolios in order to help limit their overall risk exposure.

For example, after experiencing significant losses on some of its investments in the financial sector, China has shifted its overseas investment focus from the financial sector to natural resources. Similarly, Singapore’s Temasek, under the lead of its recently appointed chief executive, Charles “Chip” Goodyear, is expected to refocus its investment efforts on the top performing commodities. Other SWFs have adopted more risk-averse strategies, including the reduction of equity investment allocations in favor of investments in U.S. Treasury securities, gold, cash and fixed-income deposits.



## INTERNATIONAL FUNDS GROUP

---

### Domestic Investments

The increased political pressure applied by domestic stakeholders to SWFs after their recent losses has caused a new trend to emerge among SWFs. SWFs, in response to this political pressure, are now placing an increased emphasis on injecting liquidity into the domestic markets in order to help revive local economies.

Recently, both the China Investment Corporation and the Qatar Investment Authority have bought shares in their respective domestic banks, while France's strategic investment fund has already made a number of investments in domestic companies in an effort to bolster their finances.

### The Way Forward

Depending on their exposure and ability to adapt to new market conditions, SWFs have been affected by the current financial crisis in different ways. In spite of the recent shifts in their investment focus, however, SWFs are still expected to return to the Western markets as they become propelled by strong growth, incentivized by internationally agreed principles on transparency and governance, supported by guidelines for open investment policies in recipient countries, and attracted by falling asset prices in these markets.

### ABOUT CURTIS

Curtis, Mallet-Prevost, Colt & Mosle LLP is an AmLaw 200 international law firm. Curtis' worldwide practice includes corporate law, mergers & acquisitions, capital markets and finance, project finance and infrastructure, investment management, taxation, real estate, litigation and international arbitration. For more than 175 years, Curtis has represented a wide range of clients, which include multinational corporations and financial institutions, governments and state companies, money managers and hedge funds. For more information about Curtis, please visit [www.curtis.com](http://www.curtis.com).

### ABOUT THE INTERNATIONAL FUNDS GROUP

Curtis' International Funds Group has been counseling investment managers and investors on a global scale for close to half a century. We specialize in developing tailored structures for the international investment community, in particular in the area of private equity and hedge funds. Our clients include financial institutions, domestic and international fund managers, their sponsors and principals, including Funds of Funds, pension plans, governmental and quasi-governmental institutions, Sovereign Wealth Funds, high net worth individuals, their family offices and other institutional asset managers and investors.

### For further information, please contact:

**CARL A. RUGGIERO**  
**CURTIS, MALLET-PREVOST, COLT & MOSLE LLP**  
101 PARK AVENUE  
NEW YORK, NEW YORK 10178  
E-MAIL: [CRUGGIERO@CURTIS.COM](mailto:CRUGGIERO@CURTIS.COM)  
TEL: (212) 696-6116  
FAX: (212) 697-1559