

Sovereign Wealth Funds as Private Equity Investors

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Interesting Times

- Free market ideology reigns supreme, but...
- Central bank reserves = US\$ 5 trillion +
- Sovereign Wealth Funds = US\$ 2.5 trillion
 - Growing at US\$ 500 billion per annum!
- Much of it is 'excess' reserves and savings
- Focus on return, diversification, alternative uses

Top 5 Sovereign Wealth Funds

| SWF | Total AUM (US\$, bn) | Alternatives? | Allocation (%) | PE (%) |
|-----------------|-----------------------------|----------------------|-----------------------|---------------|
| ADIA (UAE) | 500 - 800 | Yes | 15-20% | 5-10% |
| GIC (Singapore) | 100 - 325 | Yes | 20% | N/A |
| KIA (Kuwait) | 150 - 250 | Yes | N/A | N/A |
| GPF-G (Norway) | 300 | Planned | TBD | TBD |
| CIC (PRC) | 200 - 300 | US\$ 3 bn ++ | TBD | TBD |

Source: Euromoney, Bloomberg, RGE Monitor, Morgan Stanley, SWF web-sites

Government Holding Companies (a sample)

| SWF | AUM (US\$, bn) | Domestic Assets | Foreign Assets |
|----------------------------|-----------------------|------------------------|-----------------------|
| SASAC (PRC) | > 800 (?) | Yes | No |
| Central Hueijin (PRC) | 100 | Yes | No |
| Temasek (Singapore) | 85 | Yes | Yes |
| Shareholder Executive (UK) | 35 | Yes | No |
| Khazanah (Malaysia) | 16 | Yes | Yes |
| Samruk (Kazakhstan) | 13 | Yes | No |
| OelAG (Austria) | 11 | Yes | No |
| Mubadala (UAE) | > 10 | Yes | Yes |
| Kazyna (Kazakhstan) | 1 | Yes | Yes |

Source: Bloomberg, Morgan Stanley, SWF web-sites and materials

Implementation

- A large minority stake in a public company
 - e.g. Abu Dhabi's Mubadala Development Company
 - 5% holdings in Aldar and Ferrari
- Controlling interest in a company
 - e.g. Mubadala 100% owned companies
 - Abu Dhabi Future Energy Company
 - Abu Dhabi Terminals
 - Cleveland Clinic Abu Dhabi
 - Imperial College London Diabetes Centre, etc.

Implementation (cont.)

- Limited Partner in a Private Equity Fund
 - Classic form of PE investment
 - ADIA, GIC, KIA + Norway
- Purchase of an ownership stake in a PE fund
 - A new way of accessing private equity returns
 - China to invest US\$ 3 billion in Blackstone IPO

Potential Benefits for China

- Reserve diversification and better expected return
- Fully diversified revenue stream of Blackstone
 - Across all private equity funds
 - Real estate, hedge funds, corporate advisory, etc.
- Access US private equity deal flow ‘under the radar’
 - Lessons from the Unocal fiasco
- Access to Blackstone’s expertise and contacts
- Potential for importing Blackstone’s business model into China

Potential Benefits for Blackstone

- Secure a long-term strategic holder for 9.9% equity
 - ... without voting rights!
- Unique access to top decision-makers in China
- Competitive positioning
 - China under obligation not to invest in competitors for 1 year

Where Does Russia Stand Today?

