



KPMG's Media Institute

KPMG's Media Institute: Sovereign Wealth Funds

1 October 2008

AUDIT • TAX • ADVISORY

Speakers and hosts

Stuart Robertson, Head of Markets, Member of the Executive Committee
KPMG Switzerland

Patrik Kerler, Partner, Head of Corporate Finance,
KPMG Switzerland

Prof. Dr. Norbert Walter, Chief Economist, Deutsche Bank Group

Vijay Arumbakkam, Partner, KPMG United Arab Emirates



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Agenda

- 9.30** **Introduction**
Stuart Robertson, KPMG Switzerland
- 9.45** **Sovereign Wealth Funds: Structures, Funding, Issues, Outlook**
Patrik Kerler, KPMG Switzerland
- 10.15** **Economic significance of Sovereign Wealth Funds**
Prof. Dr. Norbert Walter, Deutsche Bank Group
- 11.00** **Coffee Break**
- 11.15** **Sovereign Wealth Funds in the Middle East**
Vijay Arumbakkam, KPMG UAE
- 12.00** **Lunch buffet**



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Sovereign Wealth Funds

Structures, Funding, Issues, Outlook

Patrik Kerler, Head Corporate Finance

History

- First SWF (Kuwait) established in the 1950-ies
- Massive growth in numbers and assets over the last 10 – 15 years
- Volumes up from USD 500 bn in the early 90ies to over USD 2 trillion as of today
- Assets under Management (AuM) estimated to reach USD 8 trillion in 2011 and USD 12 trillion by 2015

- **Past track record:** Conservative, low risk, long term, passive investments (government bonds and bank deposits)
- **Major changes under way:** Alignment of business model in analogy to PE houses; diversified portfolios/direct investments; intensive recruitment of specialists from PE houses, hedge funds, banks and other institutional investors



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Concerns of Western market economies

- What is a SWF and who is behind it?
- Are SWFs a threat to Western economies or even Western civilization?
- Will SWFs turn into active investors and possibly pursue political goals?
- Will the current economic crisis in the Western world open the flood gates for SWFs?
- What roles are SWFs playing in the current crisis?
- Are SWFs the white knights of the free market financial services system?

or

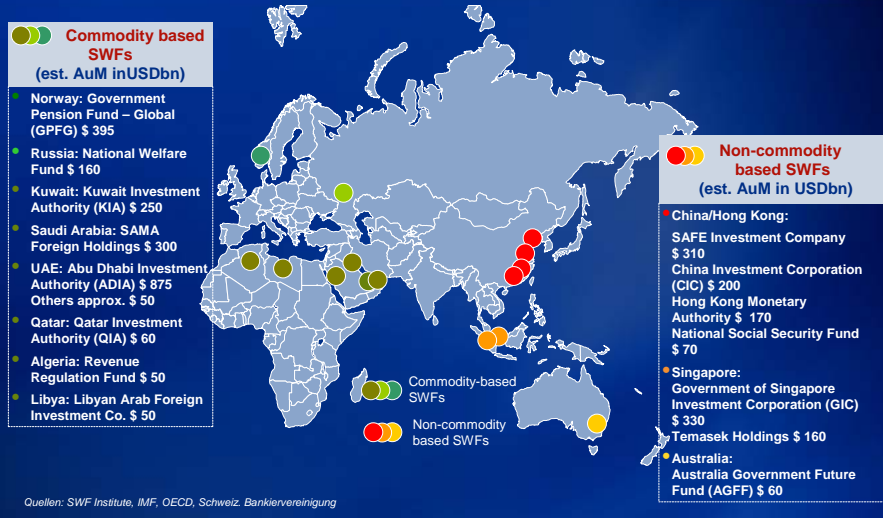
- are SWFs the logical consequence of a shift in global economic power?



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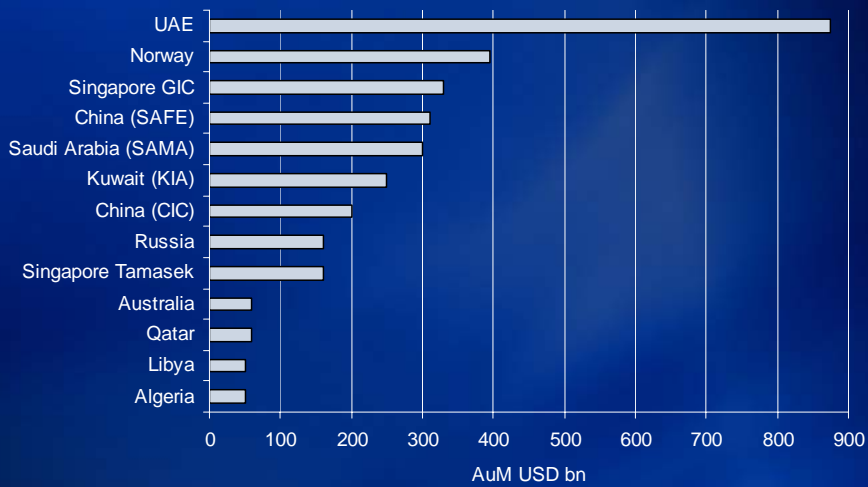
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Major Sovereign Wealth Funds I/II



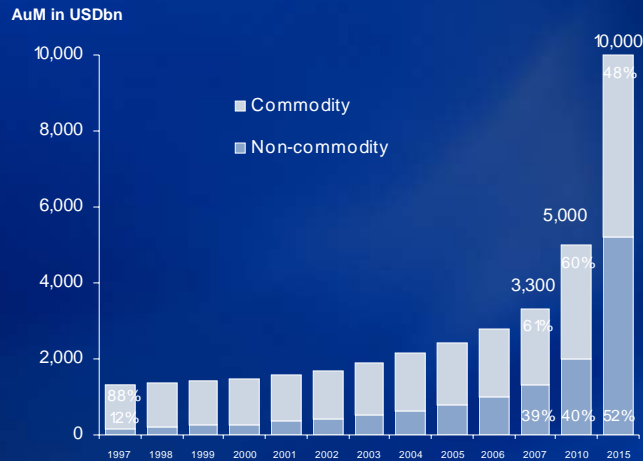
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Major Sovereign Wealth Funds II/II



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Growth dynamics



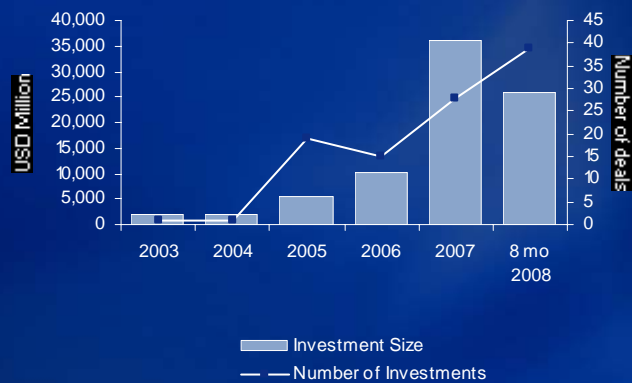
Source: IFSL estimates



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SWF investments since 2003



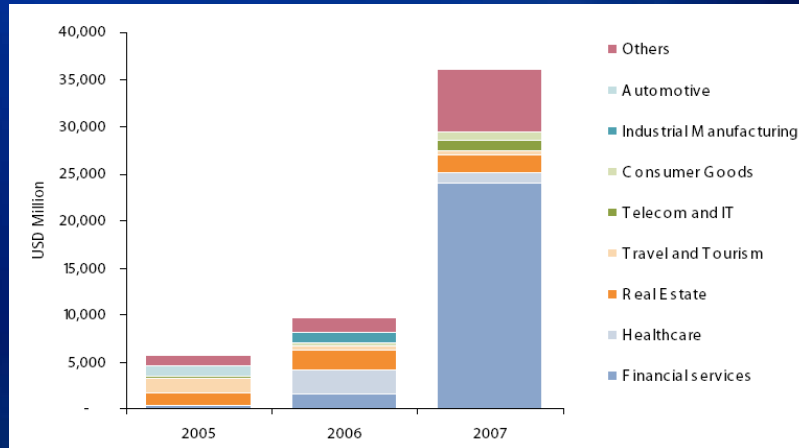
Source: Zawya Private Equity Monitor



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SWF investment flows by industries



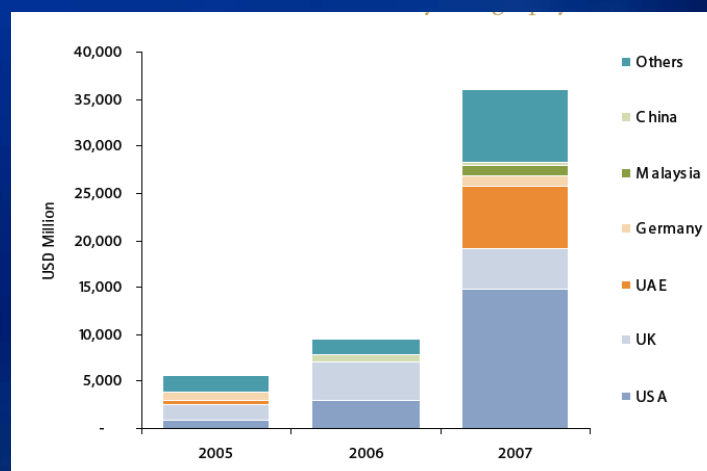
Source: Zawya Private Equity Monitor



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SWF investment flows by geography



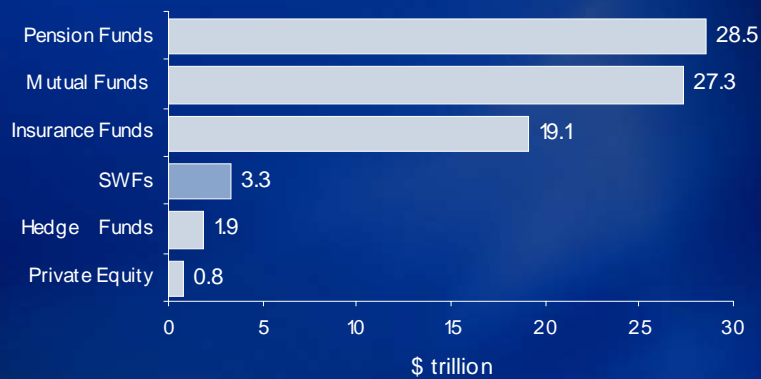
Source: Zawya Private Equity Monitor



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Relative size/power of SWFs



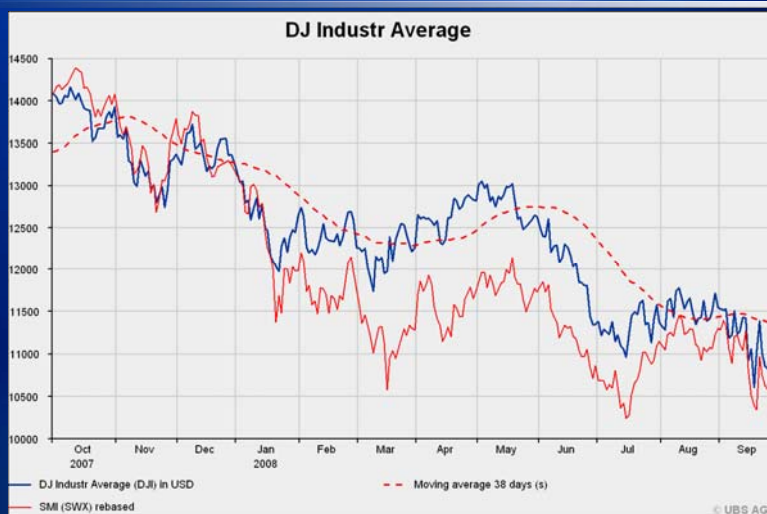
Source: IFSL estimates



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Financial markets meltdown – What will SWFs do?



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Current status

- SWFs are controlling substantial funds with significant growth in numbers and AuMs
- Major impact from current economic crisis on SWFs expected
- SWFs are currently aligning their structures and strategies to market developments
 - Recruitment: Vying for highly educated professionals from hedge funds, PE houses and other financial services institutions
 - Structures: Emulating PE/Hedge Fund business models; partly dependent on form of nation government
 - Rules & regulations: Adaptation as required to rules and regulations of target economies
- Current crisis is as much of a challenge to SWFs as it is for other market participants – SWFs will act quickly to minimize losses and maximize returns



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Governance, transparency, regulatory issues

Norwegian Pension Fund: best practice example in terms of governance, transparency and ethics

International regulatory authorities

- **IMF:** Generally Accepted Principles and Practices for Sovereign Wealth Funds (GAPP), also referred to as „Santiago Principles“ to be presented at IMF Meeting, October 2008
- **OECD:** Declaration on „Sovereign Wealth Funds and Recipient Country Policies“ adopted by OECD countries' ministers in June 2008
- **EU Commission:** Calls for increased transparency, but is not planning any regulatory measures

National tendencies

- **Protectionist approach:** USA, Germany, France, Japan, Canada, China, Russia
- **Liberal approach:** Switzerland, Netherlands, Sweden, Austria, UK

Switzerland

- **SECO:** Considers open markets as a must for Swiss economy and any protectionist tendencies as potentially dangerous



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Outlook

- SWFs will accumulate increasing funds which need to be invested
 - SWFs' relevance as global market players will increase substantially
 - Depending on home-base and funding mode, SWFs are expected to develop differently:
 - Chinese
 - Asia Pacific
 - Middle East
 - Europe/North America
 - Increasing interdependencies between markets, economies and market participants will further strengthen SWFs position as global players
- Conclusion: They are here to stay, and reflect a shift in global economic power



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Critical issues

- The sheer power of SWFs could lead to political abuse:
 - non free-market economies/plan economies
 - conflict of interest between economics and politics
- Certain SWFs could be moving from passive to active investor roles
- As a reaction, increased protectionism could develop
- Various potential implications of the current economic situation on SWFs role



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01. October 2008

Sovereign wealth funds – risks and opportunities for global financial markets

KPMG's Media Institute



Norbert Walter
Chief Economist
Deutsche Bank Group

A Passion to Perform.

Deutsche Bank



Agenda

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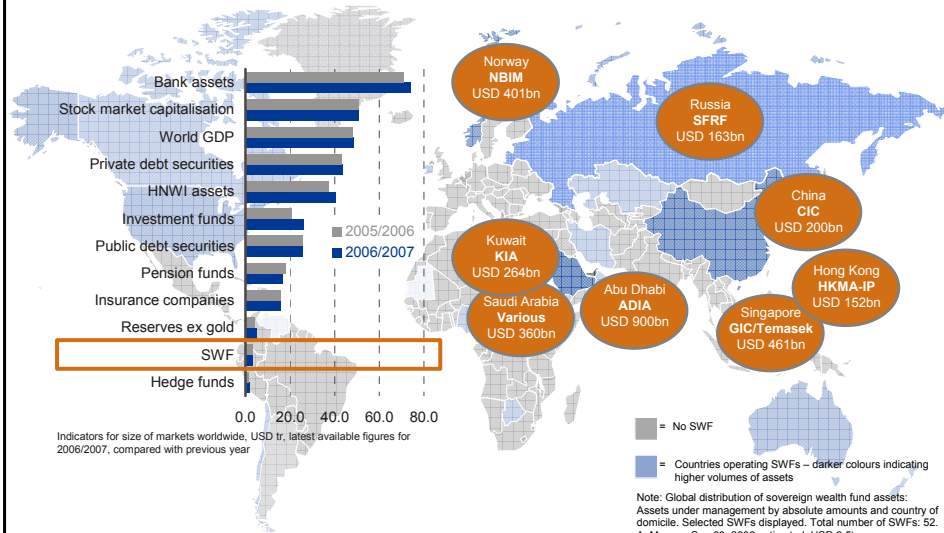
Overview of SWF industry

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Implications of SWF growth and policy issues



SWFs – a USD 3.5 trillion business



Rationale of SWFs – sound economic objectives

Stylised facts

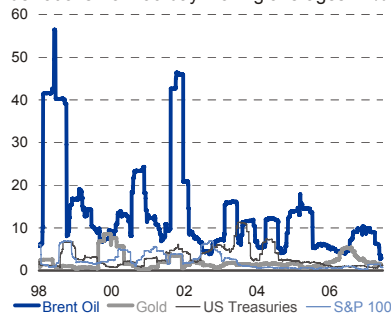
- Exhaustibility of natural resources
- Transitory nature of income streams
- Volatility of commodity markets

SWF objectives

- Intertemporal stabilisation
- International diversification
- Risk-return optimisation

Asset volatility in comparison

Price volatilities measured by standard deviations from 90-day moving averages in %



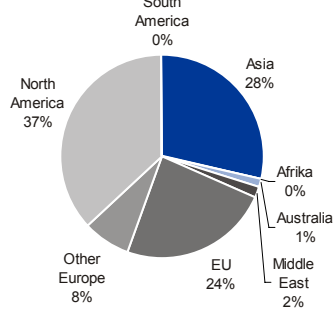
Distinctive features: state-ownership, broad range of investment strategies, un-regulated operations

Origin of assets ¹⁾	Institutional	HNWI	State	Retail investors		
Investor	Private Equity	Hedge Fund	SWF	Insurance	Pension fund	Investment fund
Investment universe ¹⁾	- Equity	- Equity - Bonds - Foreign exchange - Derivatives - others	- Mergers - Acquisitions - Equity - Bonds - Foreign exchange - HF, PE - Derivatives - others	- Equity - Bonds - Foreign exchange - Derivatives - others	- Equity - Bonds - Foreign exchange - Derivatives - others	- Equity - Bonds - Foreign exchange - Derivatives - others
Management intervention ¹⁾	Active	Active/passive	Active/passive	Passive	Passive	Passive
Specific regulation ¹⁾	—	—	—	CoB/IP/RR ²⁾	CoB/IP/RR ²⁾	CoB/IP/RR ²⁾

¹⁾ Indicative. In selected cases deviations possible.
²⁾ CoB = Conduct of Business, IP = Investor Protection, RR = Reporting Requirements

Investment trends: Europe, US, Asia as prime targets ...

SWF investment by target region



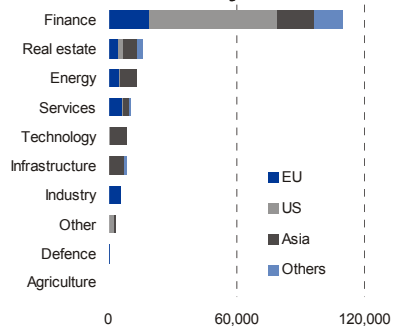
Investments with SWF participation by origin of recipient companies, reported and completed transactions, 1995-2008YTD. % of total volume

- Since 1995, worldwide total of reported and completed transactions with SWF involvement USD 178bn in 328 transactions
- Europe, America and Asia have been preferred targets
 - Europe 32%
 - America 37%
 - Asia 28%

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... owing to investments in wake of financial crisis ...

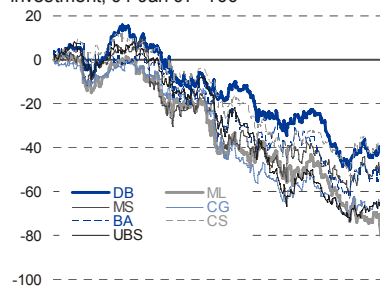
SWF investments by sector



SWF investments by sector of investment target and region, reported and completed transactions, 1995-2008, in USD bn

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

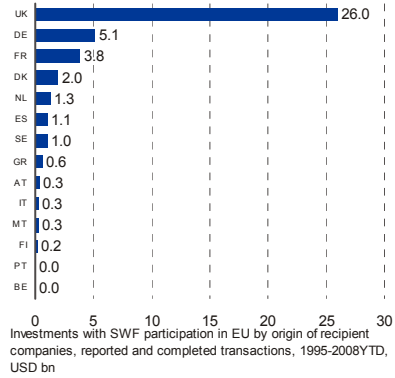
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... making SWFs – temporarily – the saviours of Wall Street and beyond

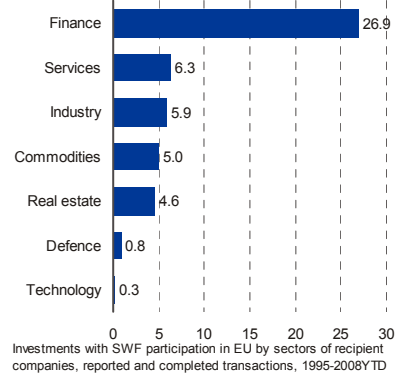
Bank	SWF	%	USD bn	Date	Bank	SWF	%	USD bn	Date
UBS	CH GIC	9.0	9.7	Dec-07	Merrill Lynch	US Temasek	10.3	3.4	Jul-08
Citigroup	US ADIA	4.9	7.5	Nov-07	Barclays Bank	GB CDB	3.1	3.3	Jul-07
Citigroup	US GIC	4.5	6.9	Jan-08	Bank of China	CN Temasek	10.0	3.1	Aug-05
Merrill Lynch	US Temasek	9.9	5.0	Dec-07	Blackstone Group	US CIC	9.9	3.0	May-07
Morgan Stanley	US CIC	9.9	5.0	Dec-07	LSE	GB QIA	24.0	2.2	Sep-07
Standard Chartered	GB Temasek	18.0	4.5	Mar-06	Barclays Bank	GB Temasek	2.1	2.0	Jul-07
Barclays Bank	GB QIA	8.9	3.5	Jun-08	Merrill Lynch	US KIC	3.3	2.0	Jan-08
Merrill Lynch	US KIA	5.7	3.4	Jan-08	LSE	GB DIFX	28.0	1.9	Sep-07
					UBS	CH NN	1.6	1.8	Dec-07

EU: UK, Germany, France get major share of commitments

Investments in EU member states

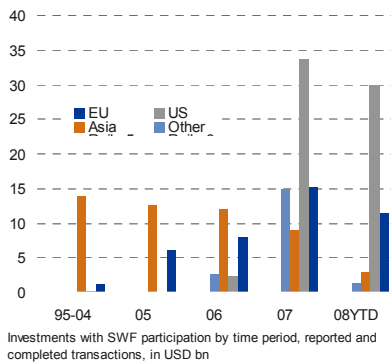


EU: SWF investments by sector

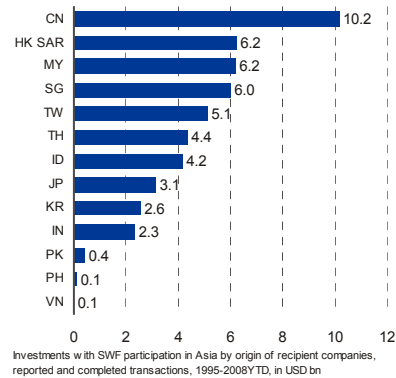


Asia: About to re-emerge as investment location

SWF investments over time

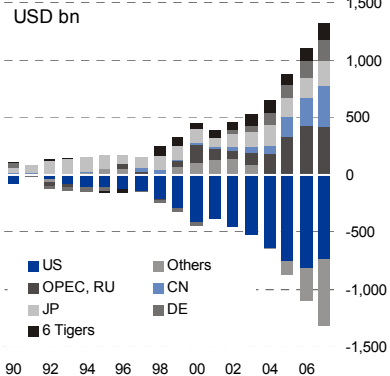


SWF investments in Asia

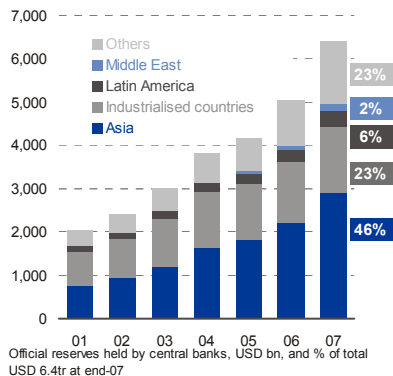


Increasing income and reserves ...

Current account balances

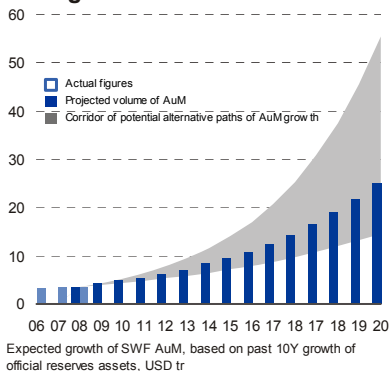


Official reserves

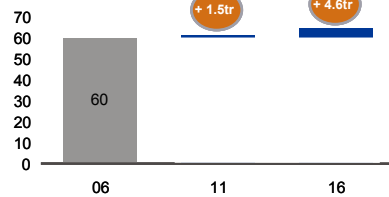


... to sustain continued SWF asset growth

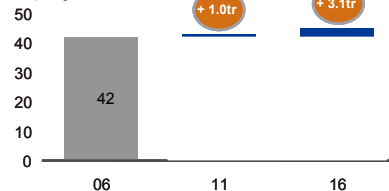
SWF growth scenarios



Fixed income



Equity



Potential fund inflow to global equity and debt markets from SWFs over 5Y and 10Y horizon based on above growth scenarios and 40% equity and 60% debt portfolio distributions by SWFs, in USD tr.

Agenda

1

Overview of SWF industry

2

Implications of SWF growth and policy issues

2

Policy implications

Financial market stability

- SWFs systemically relevant
 - Herding behaviour
 - Contagion effects
 - *In extremis*, destabilisation of market segments, regions, global financial industry
- Risks aggravated by intransparency

- ▶ Ensure greater transparency of SWFs
- ▶ Secure appropriate internal SWF governance

State funding and control

- SWFs as state entities not in line with free market economy
 - Funds not refinanced at market conditions
 - Funds not originated from market activity
- Concerns regarding corporate control

- ▶ Improve internal governance of SWFs
- ▶ Establish reasonable investment rules in recipient countries (security-related issues only)

Principles for optimal policies

Investment policy

- **Open markets**
- **Symmetry in open market access**
- **Equal treatment of foreign investors**
- **Proportionality of policy measures**
- **Transparency of policy rules**
- **Minimal political intervention**
- **International cooperation and standards (OECD)**

SWF code of conduct

- **Transparency**
 - Objectives
 - Portfolio size and structure
 - Resources
 - Institutional framework
 - External audit
- **Governance**
 - Commercial objectives
 - Independence from government
 - Good internal governance
 - Robust risk management
 - Fair competition with private sector
- **International cooperation and standards (IMF)**

Welcome major policy initiatives

Investment policy

-  — OECD investment standards to be issued by mid-2009
-  — Agreement on Principles for SWF Investment with Singapore and Abu Dhabi, Mar 20, 2008
- FINSIA reform of CFIUS, Jul 2007
-  — Commission Communication on a Common European Approach to Sovereign Wealth Funds, Feb 27, 2008
-  — Proposed amendment to Foreign Trade Act, to be adopted by end-08
- "CFIUS light"
-  — Tightening of investment screening process, Feb 17, 2008
-  — Tightening of Foreign Investment Law, Apr 2, 2008
- 42 restricted sectors

SWF code of conduct

-  — International Working Group of SWFs
- Generally Agreed Principles and Practices (GAPP) at 08 IMF Meeting
-  — Agreement on Principles for SWF Investment with Singapore and Abu Dhabi, Mar 20, 2008
-  — Commission Communication on a Common European Approach to Sovereign Wealth Funds, Feb 27, 2008
-  — Singapore and Abu Dhabi Agreement with US on Principles for SWF Investment, Mar 20, 2008



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Norbert Walter | Oct 01, 2008 | Page 17

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Sovereign Wealth Funds – An UAE Perspective

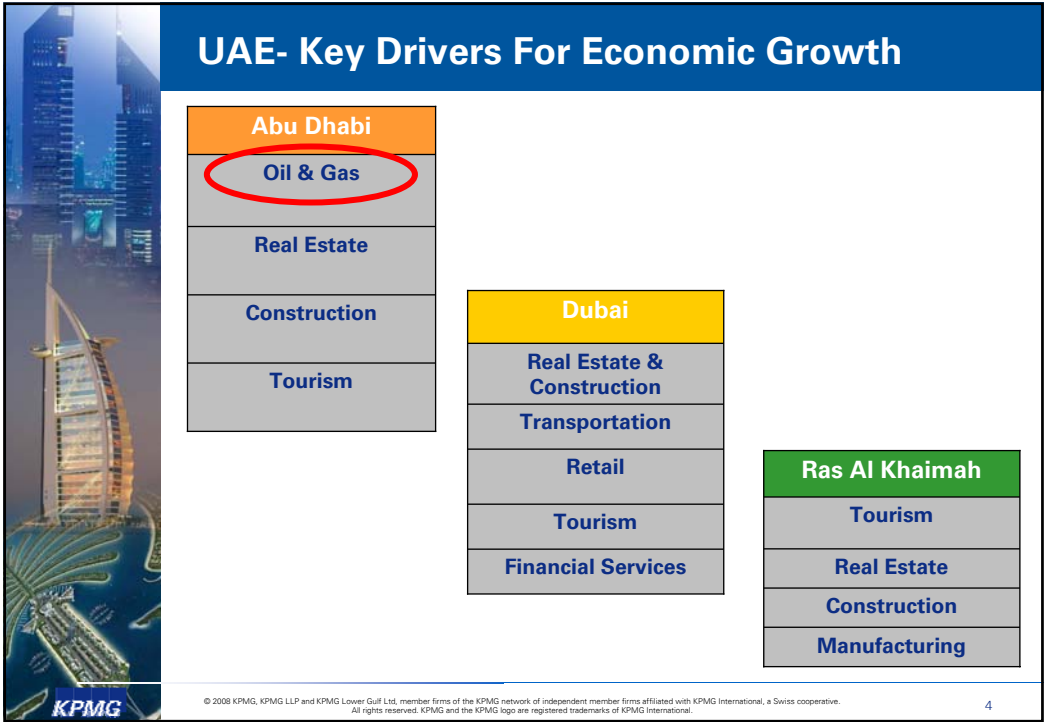
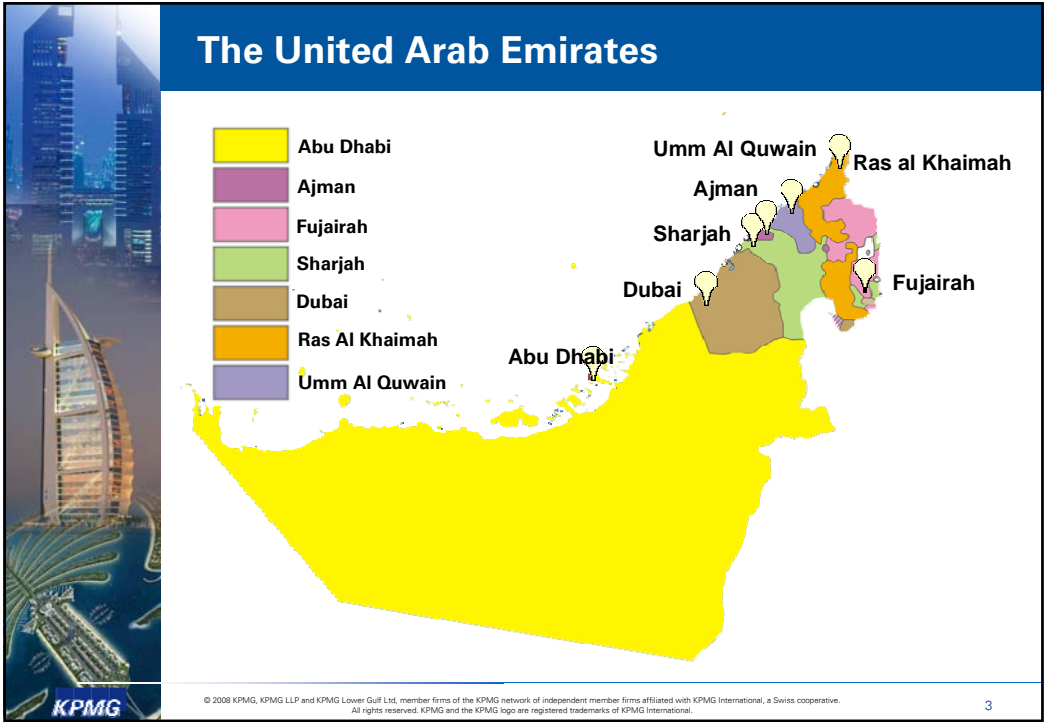
Zurich – 1 October 2008

Vijay Arumbakkam
Partner

Content

- UAE – Explained
- The “Ai” Factor
- SWF’s Vs SWE’s ????
- Good Intent But Opaque....
- Conclusion







UAE Forecast – Key Indicators

Key indicators	2007	2008	2009	2010	2011	2012
Real GDP growth (%)	7.5	8.4	7.6	7.2	6.6	6.1
Consumer price inflation (av; %)	14	16	13	9	6	5.5
Budget balance (% of GDP)	15.2	20.5	15.9	15.7	13	12.3
Current-account balance (% of GDP)	17.4	19.7	11.7	4.9	4.2	8
Exchange rate Dh:US\$ (av)	3.67	3.67	3.67	3.67	3.67	3.67
Exchange rate Dh:€ (av)	5.03	5.73	5.64	5.33	5.03	4.85

Source: Economic Intelligence Unit

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Global Shift in Financial Capital – “ Ai Factor”

Dubai



Shanghai

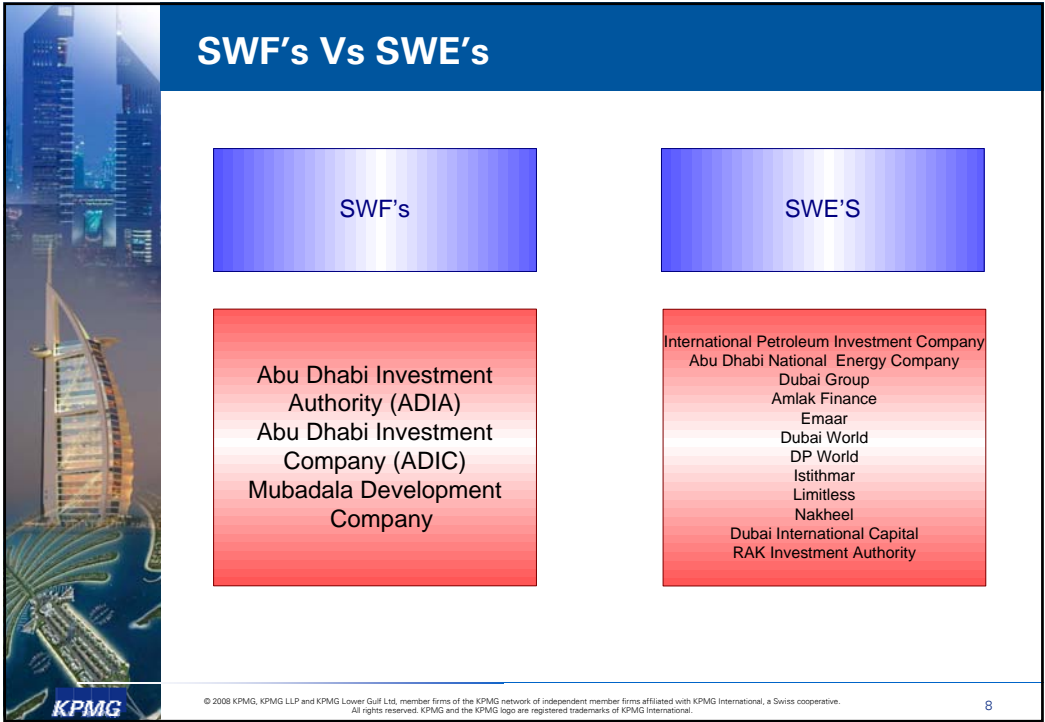
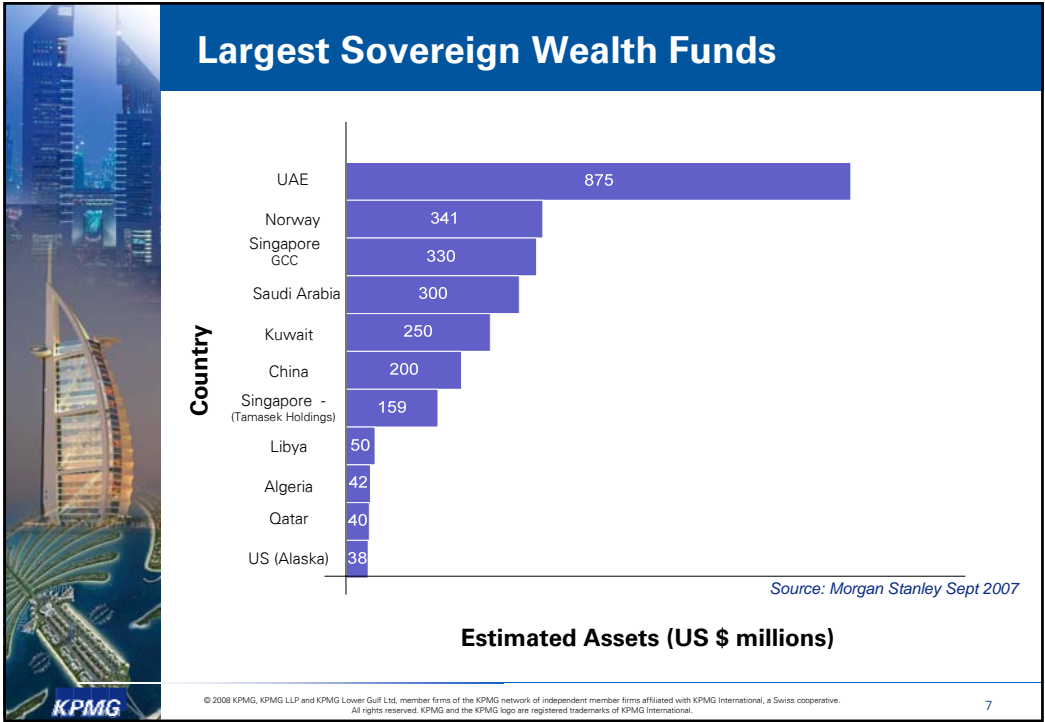


Mumbai



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Estimated Assets

Ras Al Khaimah	Estimated Asset size in \$US bn.
RAK Investment Authority	1.2

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Abu Dhabi Investment Authority - Key Investments

Major Direct Foreign Investments (Public)

Company	Country	Industry	% Ownership	Comments
Eastern European Trust Plc	United Kingdom	Trust Company	16.00%	ADIC (SWE)
Macquarie International Infrastructure Fund Ltd	Bermuda	Financials	9.80%	ADIC (SWE)
Egyptian Financial Group Hermes Holding Company	Egypt	Financials	8.30%	
Suez Cement Company	Egypt	Industrials	7.60%	
Ziopharm Oncology Inc	United States	Technology	5.10%	ADIC (SWE)
Citigroup	United States	Financials	4.90%	Subprime Bailout

Major Direct Foreign Investments (Private)

Company	Country	Type	% Ownership
Ares Management LLC	United States	Private Equity Fund	~20%
Apollo Management LP	United States	Private Equity Fund	9%

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Mubadala - Key Investments

Major Direct Foreign Investments (Public)

Company	Country	Industry	% Ownership
Spyker Cars	Netherlands	Consumer Goods	22.80%
Guinea Alumina Corporation	Guinea	Industrials	8.33%
Advanced Micro Devices	United States	Technology	8.10%
Ferrari	Italy		5.00%

Major Direct Foreign Investments (Private)

Company	Country	Type	% Ownership	Comments
Pearl Energy Ltd.	Singapore	Buyout	100%	
John Buck International	United States	Joint Venture	51%	Real Estate
SR Technics	Switzerland	Private Stock	40%	
Piaggio Aero Industries	Italy	Private Stock	35%	
LeasePlan Corporation	Netherlands	Joint Venture	25%	
Carlyle Group	United States	Private Equity Fund	7.50%	

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Investment Corporation of Dubai - Key Investments

Major Direct Foreign Investments (Public)

Company	Country	Industry	% Ownership	Comments
Labroy Marine	Singapore	Industrials	98.40%	Dubai World (Subsidiary)
Och Ziff Capital Management Group LLC	United States	Financials	51.40%	Dubai Holding (Subsidiary)
Nasdaq OMX Group Inc	United States	Financials	43.60%	Borse Dubai (Subsidiary)
London Stock Exchange Group	United Kingdom	Financials	20.60%	Borse Dubai (Subsidiary)
China Enersave Ltd	China		10.89%	Dubai Group --> Dubai Holding (Subsidiary)
Orient Express Hotels Ltd	United States	Consumer Services	9.20%	Dubai Holding (Subsidiary)
Marfin Investment Group Holdings SA	Greece	Financials	9.07%	Dubai Group --> Dubai Holding (Subsidiary)
Hyflux Ltd	Singapore	Industrials	8.80%	Istithmar (Subsidiary)
MGM Mirage	United States	Consumer Services	8.87%	Dubai World (Subsidiary)
EADS N.V.	Netherlands	Defense	3.12%	Dubai International Capital Investment (Subsidiary)
ICICI Bank Limited	India	Financials	2.87%	Dubai International Capital Investment (Subsidiary)
DaimlerChrysler AG	Germany	Auto	~2%	Dubai International Capital Investment (Subsidiary)

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Investment Corporation of Dubai - Key Investments

Major Direct Foreign Investments (Private)

Company	Country	Type	% Ownership	Comments
Travelodge UK	United Kingdom	Subsidiary	100%	Dubai International Capital (Subsidiary)
Mauser AG	Germany	Subsidiary	100%	Dubai International Capital (Subsidiary)
Barneys New York	United States	Subsidiary	100%	Istithmar (Subsidiary)
Loehmann's Holding Inc	United States	Subsidiary	100%	Istithmar (Subsidiary)
Inchcape Shipping Services	United Kingdom	Subsidiary	100%	Istithmar (Subsidiary)
ESPA International	United Kingdom	Private	40%	Istithmar World Capital - Dubai World
Chiranjeevi Wind Energy Ltd	India	Private	40%	Dubai Investment Group
Beng Kuang Marine Ltd	China	Investment	37.88%	Dubai World

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Recent Announcements – 28 September 2008

“ Malaysian infrastructure firm **UBG Berhad** and **Mubadala Development Company**, the Abu Dhabi Government investment Agency, have agreed to form a 50-50 Joint Venture to develop petroleum projects in the Southeast Asian country”

.. The National

“ Abu Dhabi’s telecom major **Etisalat** acquired 45% stake in **Dubai Swan Telecom**, a new Indian telecom venture”

.. Gulf news

LIMITLESS has taken over a Dh. 6.2 bn. venture in the Indonesian Capital of Jakarta. This is the latest addition to its portfolio of 11 developments overseas

..The National

Taq Energy B.V., has also signed a farm-in agreement with Cirrus Energy Corporation with respect to three licences and one unit area in the Dutch North Sea.


... Gulf news

“ **Meras Holding**, an investment and Real Estate company was launched in Dubai to create integrated master-planned communities by focusing on comprehensive urban planning

..Gulf news

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Debt...

“Syndication of a \$6bn multi-currency loan split between three- and five-year tranches by **Investment Corporation of Dubai (ICD)**, the investment arm of the government of Dubai, is expected to begin by late August.
...MEED Aug 08

“**Ras Al Khaimah Investment Authority (Rakia)**, the government agency responsible for the economic development of the emirate, will launch its first ever sukuk issue tomorrow of \$500 million” *.... Gulf News Nov. 07*

“Development company **Limitless** plans to raise \$1.2bn through a syndicated loan in the next few months and began a roadshow marketing the deal to investors”
...MEED Jan 08

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Good Intent But Opaque.....Common Concerns

- **What are they going to do with the money?**
- **Investment goals and behavior?**
- **Will they be used as a foreign policy tool?**
- **Are they politically motivated?**
- **Opportunistic?**

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Conclusion

- **UAE SWF's/SWE's are here to stay**
- **The world needs them given the current financial crisis/credit crunch**
- **UAE SWF's are taking steps through the IWG – International Working Group of Sovereign Wealth Funds to arrive at guidelines on transparency**
- **They understand their responsibility and are also aware of the political/cultural sensitivities around their investments**
- **Their primary objective is to earn a decent return on their investments**
- **Recipient countries/companies must understand that too much transparency will make SWF's/SWE's uncompetitive**

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