



FINANCIAL MARKETS SERIES

SOVEREIGN WEALTH FUNDS

FEBRUARY 2012



Invesco Ltd. is one of the world's leading independent global investment management organisations serving retail, institutional and high-net-worth clients around the world. Our sole focus is investment management; with no distractions from competing interests, all our global resources and local commitment are focused on providing clients with the investment expertise and client service they seek.

To achieve our mission of helping investors worldwide build their financial security, Invesco Ltd. draws on the strength of its global resources.

With US\$598.4 billion* in assets under management, specialised investment teams with distinct perspectives deliver diversified investment strategies. We offer a wide range of single-country regional and global capabilities across major equity, fixed income and alternative asset classes, delivered through a diverse set of investment vehicles. Our wide range of investment capabilities is designed to support a variety of financial objectives.

Our distinctive combination of independent thought within individual investment centres and collaboration across investment centres combines the reach and resources of a global organisation with the focus and attention of a boutique firm: our investment capabilities are both diverse and specialised; we are global in reach yet local in presence and our processes are disciplined yet can be delivered in customised ways. All of which distinctively positions Invesco Ltd. to keep pace with clients' evolving investment needs worldwide.

Invesco is dedicated to deepening and broadening its efforts among state-sponsored agencies and has been serving sovereign wealth funds (SWFs) and central banks around the world for over 25 years. As well as offering strategies that meet their risk and return objectives, Invesco has been active in the industry in its efforts to understand SWF behaviour and in dispelling popular misconceptions through its public research. We constantly strive to find innovative ways to serve our clients and add value, whether through forming strategic partnerships or by acting as a solution provider in investments and in knowledge transfer programs. SWFs represent a past and future commitment for Invesco as we continue to be passionate about our clients' success through the pursuit of investment excellence.

The investment capabilities mentioned in this corporate description may not be available in all jurisdictions or to all investors in a jurisdiction, and would be provided by a regulated investment manager only in and from the country in which the manager is licensed and domiciled.

* Invesco as at 30 September 2011



TheCityUK champions the international competitiveness of the financial and professional services industry. Created in 2010, we support the whole of the sector, promoting UK financial and professional services at home and overseas and playing an active role in the regulatory and trade policy debate.

TheCityUK has a global export focus with a commitment to help UK based firms grow their business in other parts of the world. In 2010, the financial services industry accounted for 9% of UK GDP and 12% of UK tax receipts. The sector currently employs more than 1 million people, more than 66% of whom work outside London, and underpins the businesses that drive jobs and growth. Added together with nearly 1 million employed in professional services, it is easy to see the importance of a sector that employs 7% of the working population.

TheCityUK provides constructive advice and is the practitioner voice on trade policy and all aspects of taxation, regulation, and other legislative matters that affect the competitiveness of the sector. We conduct extensive research and run a national and international events programme to inform the debate. Our senior team regularly engages with regulators and policymakers at home and overseas, ensuring the sector's views are represented at the highest levels. We are tasked with creating a new vision for the financial services sector. We are focused on supporting policymakers and business to deliver the new policy ideas which will help deliver growth.

SOVEREIGN WEALTH FUNDS

FEBRUARY 2012

While sovereign wealth funds (SWFs) have existed for decades, their profile has risen considerably since the start of the economic slowdown. The substantial size and high liquidity of SWFs' assets has turned the government sector into an important international investor group. TheCityUK expects SWFs' assets to grow from their current level of \$4.8 trillion to \$5.2 trillion by the end of 2012, as inflows from trade surpluses and commodities' exports continue.

SUMMARY

Assets under management of SWFs increased by 9% in 2011 to a record \$4.8 trillion (Charts 1, 2 and 3). There was also an additional \$7.2 trillion held in other sovereign investment vehicles, such as pension reserve funds and development funds. Assets under management increased for the third year running in 2011, despite some governments withdrawing capital during the year in order to cover fiscal shortfalls. Estimates of the size of this market differ widely due to varying definitions of SWFs and limited disclosure and lack of transparency of a number of SWFs, particularly some from the Middle East. Transparency in the market is gradually improving since the development and implementation of the Santiago Principles in 2008, a list of best practices for SWFs.

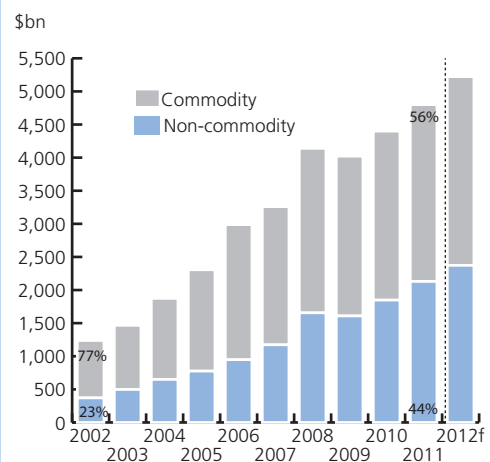
Since the start of the economic downturn, many SWFs have experienced a slowdown in the inflow of capital. SWFs should see a resumption in strong capital inflows as some Asian countries, particularly China, continue to build up foreign exchange reserves, and commodity demand increases with the recovery in the global economy and growth in demand from emerging markets. TheCityUK projections are for SWFs' assets to increase to \$5.2 trillion by the end of 2012. Countries affected by the recent political instability in the Middle East and North Africa collectively manage around \$160bn in SWF assets which represents around 4% of global SWFs assets under management. Countries with the largest SWFs so far have not been affected by the political instability.

SWFs funded by commodities exports, primarily oil exports, totalled \$2.7 trillion at the end of 2011 or 56% of overall SWFs' assets. Non-commodity SWFs, funded by transfer of assets from official foreign exchange reserves, and in some cases from government budget surpluses, pension reserves and privatisation revenue, totalled \$2.1 trillion. Non-commodity funds are capturing an increasing share of SWFs' assets, a trend that is likely to continue in the coming years.

Direct investments of sovereign wealth funds totalled \$59bn in 2011, down

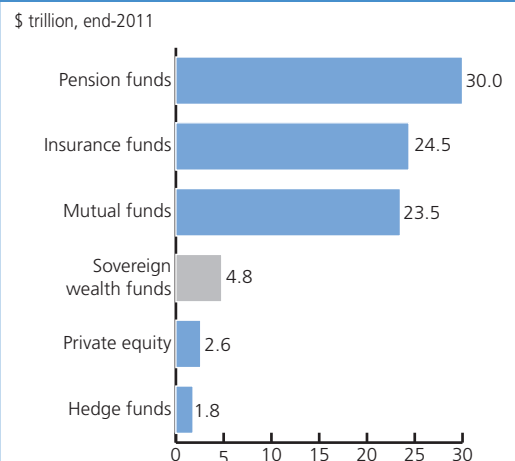
SWFs' assets under management up 9% in 2011 to **\$4.8 trillion**

Chart 1
SWFs' assets under management



Source: SWF Institute; TheCityUK estimates

Chart 2
Global assets under management



Source: TheCityUK preliminary estimates

around a quarter on the previous year and 40% below the peak level in activity two years earlier (Chart 10). Around \$14bn was invested in the financial services sector during 2011, down from around \$20bn in the previous year and significantly below the \$80bn invested three years earlier (Chart 13). The financial services sector was the largest recipient of SWF direct investment between 2005 and 2011 accounting for over a third of value invested. The energy sector and utilities/infrastructure were also significant recipients of direct investments during 2011 with around \$10bn each.

The US was the leading destination for SWFs' investments between 2005 and 2011, accounting for some \$76bn or 19% of the overall investments during this period. The UK followed with \$68bn or 17% of the total. Other important destinations included China, France, Switzerland, Germany and Qatar (Chart 11). Emerging market countries have accounted for a growing share of investments over the past two years, a trend that is likely to continue (Chart 12).

The UK and the SWFs industry The UK and London in particular is an important centre for SWFs as a clearing house and location from where some of these funds are managed. Its strong position stems from the structural strengths associated with the cluster of financial and professional services, broad skills base, open market and pivotal international position of English law. A number of large SWFs such as the Kuwait Investment Authority, Brunei Investment Agency, Abu Dhabi Investment Authority and Temasek/General Investment Corporation of Singapore have local representative offices in London.

The UK Government is taking action to increase inward investment in the UK infrastructure market by overseas investors including sovereign wealth funds. In addition to the signing of the "Memorandum of Understanding on Enhancing Cooperation in Infrastructure" with the Chinese Government in September 2011 with the aim of developing closer co-operation between the UK and China, the UK Government has continued its dialogue with overseas institutional investors in the Middle East and elsewhere to expand the sources of capital available to UK infrastructure developers in meeting their investment objectives.

The UK has been a major recipient of SWF investment in recent years. The most recent example is the purchase of nearly 9% of the holding company for Thames Water by the China Investment Corporation, the fund's first major share purchase in the UK. The financial sector and other industries in the UK have a regulatory, competition and national security framework that ensures that all foreign investment, whether from a SWF or not, meets the appropriate criteria. The UK Government is committed to ensuring the UK remains an open and competitive market for international investment.

MARKET SIZE AND GROWTH TRENDS

Assets under management of SWFs increased by 9% in 2011 to around \$4.8 trillion (Charts 1, 2 and 3). In addition to SWF assets, there was also \$7.2 trillion held in other sovereign investment vehicles, such as

Chart 3
Sovereign investment vehicles

\$ trillion	Sovereign wealth funds		Total assets	Other sovereign investment vehicles	Official foreign exchange reserves not in SWFs
	Commodity funds	Non-commodity funds			
2008	2.5	1.6	4.2	6.2	5.7
2009	2.4	1.6	4.0	6.5	6.6
2010	2.6	1.8	4.4	6.8	7.4
2011	2.7	2.1	4.8	7.2	8.1

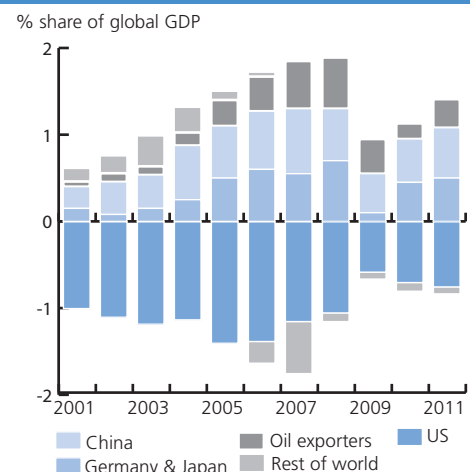


Source: TheCityUK estimates, OECD, Wikipedia, IMF

Definition of SWFs

SWFs are defined as special purpose investment funds or arrangements, owned by the general government. Created by the government for macroeconomic purposes, SWFs hold, manage, or administer assets to achieve financial objectives, and employ a set of investment strategies which include investing in foreign financial assets. SWFs' assets are commonly established out of balance of payments surpluses (Chart 4), official foreign currency operations, the proceeds of privatisations, fiscal surpluses, and receipts resulting from commodity exports.

Chart 4
Global current account imbalances



Source: IMF, TheCityUK estimates

pension reserve funds and development funds (Chart 5). Estimates of the size of this market differ widely due to varying definitions of SWFs and limited disclosure and lack of transparency of many SWFs. The growth in assets under management for the third year running, occurred against a backdrop of some governments withdrawing capital from SWFs during 2011 in order to cover fiscal shortfalls. TheCityUK projections are for SWFs' assets to increase to around \$5.2 trillion by the end of 2012.

A number of new SWFs were launched during 2011. This included the Nigerian Sovereign Investment Authority, established in May 2011 to manage revenue generated from the sale of crude oil. The purpose of the fund is to close budget deficits resulting from oil price fluctuations and invest in domestic infrastructure projects. The €4bn Italian Strategic Fund was launched in July 2011 with the purpose of supporting the growth of Italian strategic companies. Other funds launched in 2011 include the Papua New Guinea Sovereign Wealth Fund and Mongolia's Fiscal Stability Fund. Some other countries that are planning to establish new SWFs include Angola, Bolivia, Canada, India, Japan, Taiwan and Thailand.

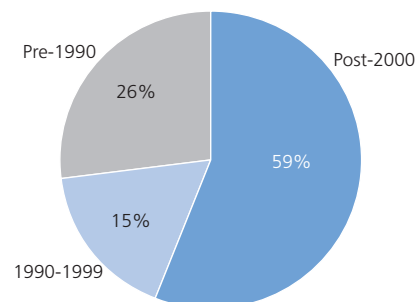
Assets of SWFs are larger than those of the hedge fund industry but much smaller than conventional fund management assets (pension, insurance and mutual funds) (Chart 2). SWFs assets are however increasing at a greater pace. Some SWFs are well established having been around since the 1950s. Their growing prominence is a more recent phenomenon with more than half of SWFs established since 2000 (Chart 5).

The profile of SWFs has risen considerably since 2007. The economic downturn has highlighted the growing role of investment by foreign governments, particularly in market conditions characterised by scarce liquidity. A number of SWFs have participated in stabilisation efforts on their domestic markets through for example direct capitalisation in banks and financial markets, purchasing real estate, and financing budget shortfalls and fiscal stimuli. For example, Russia's Reserve Fund was used to supplement the federal budget in recent years, with its total assets declining by around a half to \$25bn. Countries affected by the recent political instability in the Middle East and North Africa collectively manage around \$160bn in SWF assets which represents around 4% of global SWFs assets under management. Countries with the largest SWFs so far have not been affected by the political instability.

Sources of funds SWFs are only one of the many channels through which governments deploy their financial assets. The funding of SWFs comes from various sources, which can be combined. SWFs are generally the result of current account surpluses from exports of oil and other commodities or manufactured goods, fiscal surpluses, public savings or privatisation receipts.

Chart 5
Launch year of largest SWFs

Launch year of top 50 sovereign wealth funds, % share by number



Source: TheCityUK calculations

Table 1
SWFs market share by country and region

end-2011	\$bn	% share
By country		
China	1,411	29
United Arab Emirates	783	16
Norway	560	12
Saudi Arabia	478	10
Singapore	405	8
Kuwait	296	6
Russia	114	2
Others	753	16
By region		
Asia	1,927	40
Middle East	1,682	35
Europe	802	17
Americas	139	3
Africa	130	3
Other	120	2
Total	4,800	

Source: SWF Institute, TheCityUK estimates

Table 2
Largest SWFs

end-2011	\$bn assets under management	Country	Inception year	Source
Abu Dhabi Investment Authority	627	UAE-Abu Dhabi	1976	Commodity
SAFE Investment Company	568	China	1997	Non-Commodity
Government Pension Fund – Global	560	Norway	1990	Commodity
SAMA Foreign Holdings	473	Saudi Arabia	n/a	Commodity
China Investment Corporation	410	China	2007	Non-Commodity
Kuwait Investment Authority	296	Kuwait	1953	Commodity
Hong Kong Monetary Authority Investment Portfolio	293	China (HK)	1993	Non-Commodity
Government of Singapore Investment Corporation	248	Singapore	1981	Non-Commodity
Temasek Holdings	157	Singapore	1974	Non-Commodity
National Social Security Fund	135	China	2000	Non-Commodity
National Welfare Fund	114	Russia	2008	Commodity
Qatar Investment Authority	85	Qatar	2005	Commodity
Australian Future Fund	73	Australia	2004	Non-Commodity
Libyan Investment Authority	70	UAE-Dubai	2006	Commodity
International Petroleum Investment Company	65	Libya	2006	Commodity
Others	626			
Total	4,800			

Source: SWF Institute, TheCityUK estimates

SWFs fall into one of two major categories: commodity funds funded predominantly from oil revenue; and non-commodity funds funded mainly from official foreign exchange reserves and in some cases from pension reserves. TheCityUK attributes just over a half of SWFs' assets at the end of 2011 to commodity funds. Non-commodity funds have however grown at a faster pace in recent years, a trend that is likely to continue.

Regional distribution of funds Asian and Middle Eastern countries each accounted for close to 40% of SWFs' assets at the end of 2011. Europe generated most of the remaining funds (Table 1). China had the largest individual country share with nearly 30% of the global total. Countries from the Middle East are very prominent in individual country rankings with United Arab Emirates accounting for 16% of the global total and Saudi Arabia 10%. Norway is also an important centre with 12% of global assets.

Largest SWFs are the Abu Dhabi Investment Authority, SAFE Investment Company, Norway Government Pension Fund, SAMA Foreign Holdings, and China Investment Corporation (Table 2). Estimates of holdings of some SWFs vary widely due to limited disclosure and transparency. This is particularly the case with a number of Middle Eastern funds.

Other sovereign investment vehicles Distinct from sovereign wealth funds but sharing many common elements with them are other sovereign investment vehicles such as sovereign and public pension reserve funds, government investment funds, government development funds and government affiliated corporate entities.

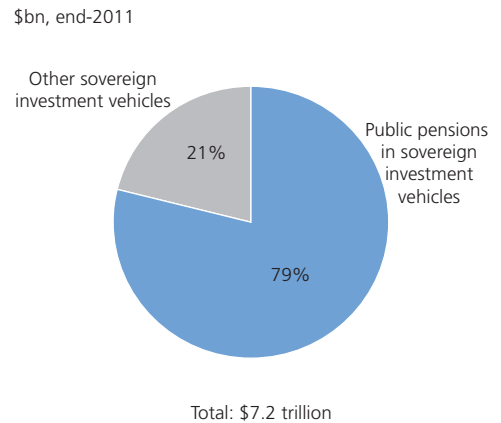
TheCityUK estimates that assets held by sovereign investment vehicles (excluding SWFs) totalled \$7.2 trillion at the end of 2011, up from \$6.8 trillion in the previous year (Chart 6). According to the OECD, countries, such as the US, Japan, and Sweden held funds totalling over \$4.5 trillion, sometimes through social security institutions, to finance future payouts on pay-as-you-go pensions (Table 3). Remaining funds include government development funds, government investment corporations and overseas investments of government-owned enterprises.

COMMODITY SWFs

Commodity or natural resource SWFs are funded predominantly from oil exports, with gas and mineral revenue also representing important sources. Many oil exporting countries have set up SWFs to invest oil trade surpluses in global financial assets. Other investors include central banks, government investment funds, wealthy individuals and private and government controlled companies. The major oil exporting countries with commodity SWFs include the Gulf Cooperation Council and other Middle Eastern countries, Norway, Russia, Nigeria, Venezuela and Indonesia. The focus of commodity SWFs is on maintaining domestic economic stability insuring against the risk of commodity price fluctuation; and providing an income stream to future generations in the event of long-term decline in export revenue from oil and other commodities.

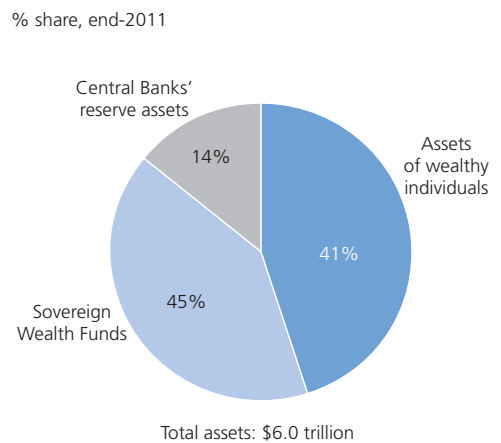
Over a half of the \$6.0 trillion in oil exporters' foreign investment assets was held by governments at the end of 2011 with wealthy individuals accounting for the remaining 41% (Chart 7). Four-fifths of government

Chart 6
Sovereign investment vehicles



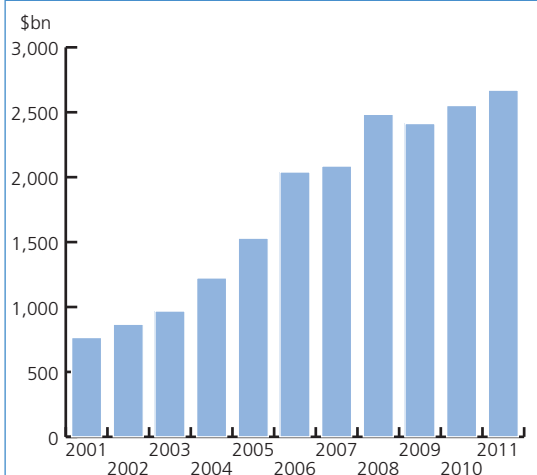
Source: OECD, TheCityUK estimates

Chart 7
Oil exporting countries' foreign investment assets



Source: TheCityUK calculations

Chart 8
Oil exporting countries' assets in SWFs



Source: TheCityUK estimates

controlled funds were held in SWFs. Assets of SWFs originating from commodities' exports increased by more than a quarter in the five years up to the end of 2011 to nearly \$2.7 trillion (Chart 8). Commodity funds' share of total SWFs' assets declined during this period from 64% to 56% due to more rapid growth of non-commodity funds.

TheCityUK estimates that SWFs from commodities will increase to around \$2.9 trillion by the end of 2012. Growth in funds is likely to be in countries with largest oil reserves such as Saudi Arabia, Canada and Venezuela (Table 4). While oil and gas revenues have fuelled growth of the largest commodities funds, in the coming years revenue from other commodities such as solar energy may grow in importance.

NON-COMMODITY SWFs

Non-commodity SWFs are funded by transfer of assets directly from official foreign exchange reserves, and in some cases from government budget surpluses and privatisation revenue. As official foreign exchange reserves have grown, particularly in a number of Asian countries, some monetary authorities have concluded that their reserves are in excess of their immediate needs. Global official foreign exchange reserves totalled around \$10.2 trillion at the end of 2011. Around a fifth of this, or \$2.1 trillion, was held in SWFs (Chart 9). This was nearly twice the total five years earlier. Such funds share of global SWFs has increased over the past decade, and their 44% share at the end of 2011 is likely to rise further in the coming years.

Despite the economic slowdown, some Asian countries, particularly China,

Types of sovereign investment vehicles

Both SWFs and other sovereign investment vehicles are government owned investment entities that seek to generate financial returns for the nation. Their funding, operations and objectives however differ.

SWFs

Stabilization funds are set up by countries rich in natural resources to provide budgetary support and protect the national economy from volatile commodity prices. These funds are built up in times of favourable commodity prices and drawn upon in cases of low commodity prices or shortage of reserves.

Savings funds have longer term wealth creation as a goal and are intended to share wealth across generations. For countries rich in natural resource, savings funds transfer non-renewable assets into a diversified portfolio of international financial assets to provide for long-term objectives.

Other sovereign investment vehicles

Sovereign and public pension reserve funds represent investment vehicles funded with assets set aside to meet the government's future entitlement obligations to its citizens.

Government investment funds are funds established to invest official Government reserves. Often, the assets in such arrangements are still counted as reserves.

Government development funds allocate resources for funding priority socioeconomic projects, such as infrastructure.

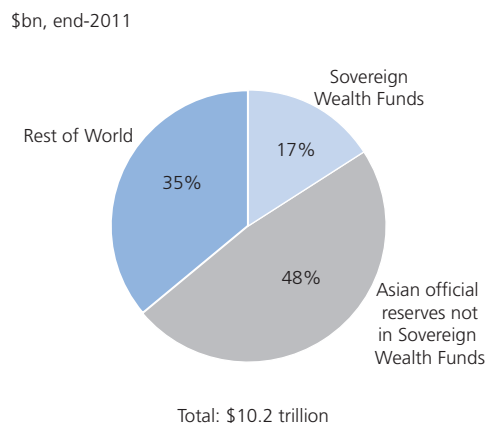
Government owned enterprises are companies over which the state has significant control. This category includes a wide variety of entities, including manufacturing and financial firms. State-owned enterprises can themselves undertake foreign investment.

Table 3
Public pension reserve funds

end-2010	\$bn
Social Security Trust Fund (US)	2,609
Government Pension Invest. Fund (Japan)	1,313
General Org. for Social Insurance (Saudi Arabia)	400
National Social Security Fund (China)	127
National Pension Fund (Korea)	280
Canadian Pension Fund (Canada)	125
National Pension Funds (Sweden)	85
Social Security Reserve Fund (Spain)	72
Sustainability Guarantee Fund (Argentina)	46
Other	363
Total	5,420

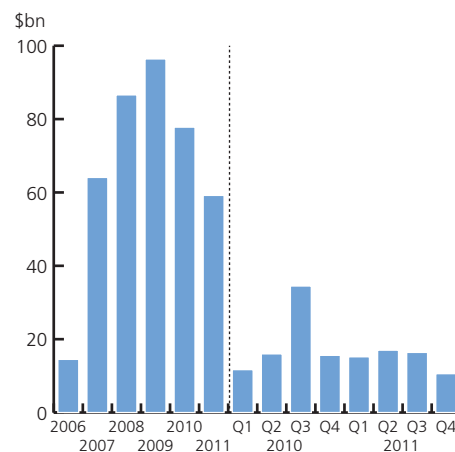
Source: OECD

Chart 9
Official foreign exchange reserves held in SWFs



Source: IMF, Wikipedia, TheCityUK estimates

Chart 10
Direct SWF investment activity



Source: SWF Institute - Sovereign Wealth Fund Transaction Database

have continued to accumulate foreign exchange reserves. A decade ago, Asian central banks accounted for one-third of official currency reserves; at the end of 2011 they accounted for around two-thirds. The growth largely stems from current account surpluses of some Asian countries.

China and Japan are countries with the largest surplus on balance of payments, well ahead of oil-exporting countries and other developed countries.

China's foreign exchange reserves increased by 12% in 2011 to around \$3.2 trillion or nearly a third of the global total. It was followed by Japan with 11% of the total. Russia and Saudi Arabia were the next largest holders of official reserves with close to 5% of the total each. Other Asian countries among the ten largest foreign reserve holders in the world include India, Taiwan, South Korea, Singapore and Hong Kong. Norway's Government Pension Fund is the second largest global SWF, largely funded from Government's oil-related revenues, 80% of which are transferred into this fund. For the purposes of this report we have classified this fund as a commodities SWF.

SWF investment strategies

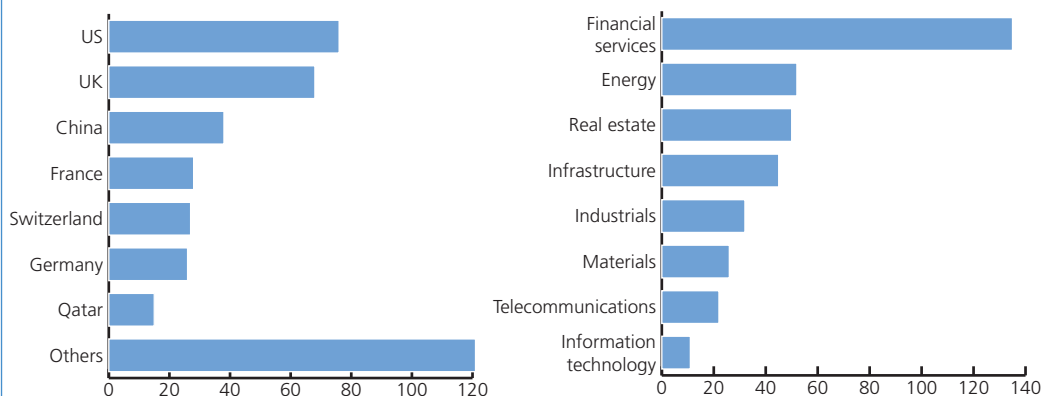
SWFs can differ significantly in their asset allocation and risk management strategies reflecting their different objectives and constraints. SWFs typically adopt a long term approach to investing and low leverage although stabilisation SWFs have shorter term investment horizons in order to take into account possible shorter term national liquidity and financing needs. Public disclosure of investment management strategy varies widely between SWFs, but overall is limited. SWFs have considerable freedom in their asset allocation decisions and are usually not constrained to certain asset classes or currency exposures unlike some institutional investment managers such as pension funds may be.

Commodity SWFs have a long term approach to investment decisions and a preference for equity and alternative investments. Around four-fifths of oil-exporting countries' funds are invested in overseas assets. Equity investments account for close to a half of their overseas investments, followed by fixed income with a quarter and bank deposits 15%. However, as SWFs have become more risk averse, share of investment in bonds is increasing.

Non-commodity SWFs have been an important source of liquidity on global capital markets and tend to invest in US assets, particularly US Government bonds. Figures on currency composition of official foreign exchange reserves show that the US dollar accounts for nearly two-thirds of the total. Asian central banks held the largest stock of US Treasury securities in October 2011 with China and Japan each accounting for more than a fifth of foreign holdings. They were followed by the UK 9% and oil exporting countries 5%. Assets of official foreign exchange reserves managed through SWFs are generally invested with a higher risk tolerance than official foreign-exchange reserves.

Chart 11
Direct SWF investment activity

\$bn invested between 2005 and 2011



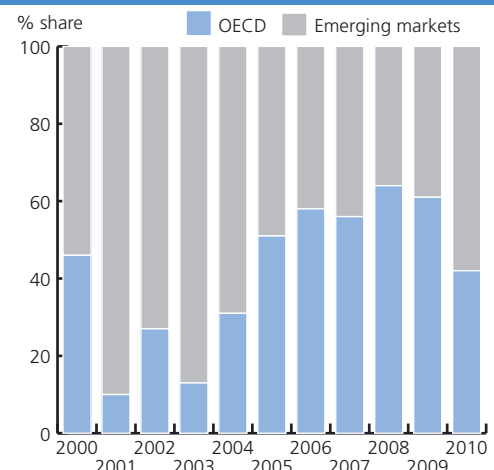
Source: SWF Institute - Sovereign Wealth Fund Transaction Database

Table 4
Oil - proven reserves

Country	Barrels billion
End-2011	
Saudi Arabia	264.5
Venezuela	211.2
Canada	173.6
Iran	151.2
Iraq	143.1
Kuwait	101.5
United Arab Emirates	97.8
Russia	60.0
Libya	47.1
Nigeria	37.2
Others	236.0
Total	1,523.2

Source: Oil & Gas Journal

Chart 12
SWF investment trends



Source: Monitor-FEEM SWF Transaction Database

INVESTMENT TRENDS

The substantial size and high liquidity of SWFs' assets has turned the government sector into an important international investor group. As SWFs have long-term investment horizons and are not highly leveraged, they represent a steady source of investment capital that may help to stabilize markets. Direct investments of sovereign wealth funds totalled \$59bn in 2011, down around a quarter on the previous year and 40% below the peak level of activity two years earlier (Chart 10). This is according to the SWF Institute's Sovereign Wealth Fund Transaction Database which tracks sovereign wealth fund transactions in real estate, listed equities, unlisted equities, infrastructure, and other unique acquisitions.

Around \$14bn was invested in the financial services sector during 2011, down from around \$20bn in the previous year and significantly below the \$80bn invested three years earlier (Chart 13). The financial services sector was the largest recipient of SWF direct investment between 2005 and 2011 accounting for over a third of transactions (Chart 11). The energy sector and utilities/infrastructure were also significant recipients of direct investments during 2011 with around \$10bn each. Some of the largest transaction sizes per deal during 2011 were in utilities and infrastructure.

International policy issues

SWFs bring significant benefits to global capital markets in terms of increasing market liquidity and financial resource allocation. Some governments however have expressed reservations about SWFs because of the limited disclosure and transparency of some SWFs. Another concern is that SWFs may invest to secure control of strategically important businesses or sectors for political rather than commercial reasons, and could use these investments to advance their own national interests.

In response to these concerns the International Working Group of Sovereign Wealth Funds (IWG) was formed in May 2008, with the IMF providing support in the form of a secretariat. In October 2008, the Group published a set of 24 voluntary Principles, the Generally Accepted Principles and Practices for Sovereign Wealth Funds, known as the Santiago Principles. Initial indications are that some SWFs have made progress in improving transparency, with more publishing annual reports and disclosing their assets under management. For example the Abu Dhabi Investment Authority published its first annual report and accounts in March 2010. But there remains a wide dispersion in the extent of transparency. Typically Asian SWFs achieved a higher rate of compliance while some Middle Eastern SWFs are lagging in initiatives to improve compliance. The IWG reached a consensus in April 2009 on the establishment of the International Forum of Sovereign Wealth Funds to follow up on the work undertaken in the context of the Santiago Principles. The Forum is a voluntary group of SWFs which meets at least once a year to exchange views on issues of common interest, facilitate an understanding of the Santiago Principles and SWFs activities, and encourage cooperation with investment recipient countries.

On the recipient country side, the OECD published guidance in 2008 on recipient country policies towards SWFs. Recipient countries should strive to avoid protectionism and uphold fair and transparent investment frameworks. A forum for public-private sector interactions, the Official Monetary and Financial Institutions Forum (OMFIF), held its inaugural meeting at the beginning of 2010, to facilitate discussions between Western central banks and the SWF community.

Chart 13
Direct SWF investments in financial services

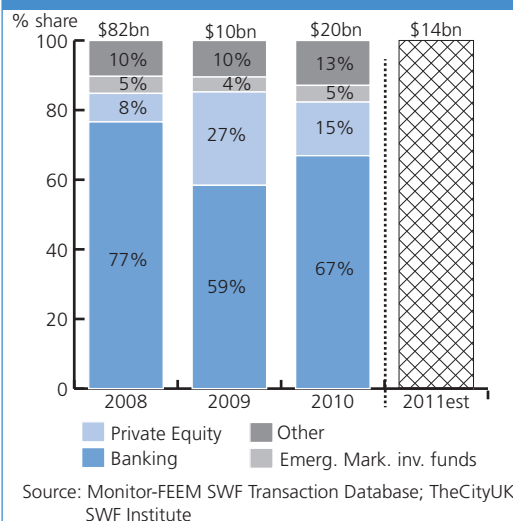
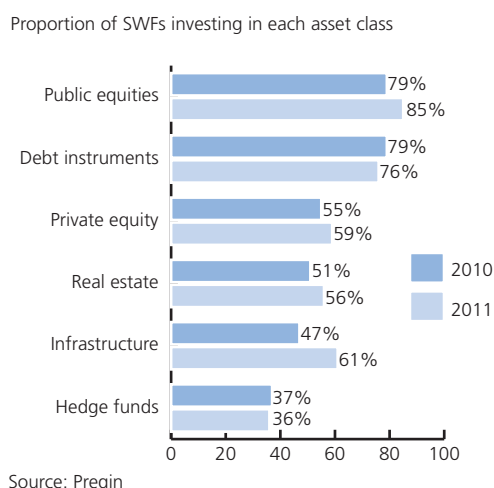


Chart 14
Sovereign Wealth Funds' asset allocation



Prior to this, at the outset of the credit crisis in the second half of 2007 and first quarter of 2008, SWFs invested some \$60bn in Western institutions that were experiencing financial difficulties. Some high profile investments during this period included funds invested by Middle Eastern and Asian SWFs into Citigroup, UBS, Merrill Lynch, Morgan Stanley and Barclays Bank. In just a few months the rapid fall in the value of US and European equity markets, particularly banking stocks, saw SWFs making substantial losses on some of these investments.

In the second half of 2008 and early 2009 SWFs cut back on their foreign spending to help stabilise domestic banks and financial markets which were starting to be affected by the economic downturn and fall in commodity prices. SWFs had also faced public criticism in their countries following a string of losses on their foreign investments. From 2007 to early 2009, the world's SWFs lost around a fifth in total value, or \$600bn following a sharp downturn in global asset prices, particularly prices for equity and alternative investments. Since the middle of 2009, SWFs have gradually been regaining their appetite for foreign investment. The deal transaction sizes have however been smaller compared to 2008 and early 2009.

Over the past decade, there has been a gradual shift from passive to active investment strategies. This involves taking minority or majority stakes in companies through cross-border mergers and acquisitions. Such investments totalled around \$400bn between 2005 and 2011. SWFs acquired minority stakes in around two-thirds of these investments. Between 2008 and 2010, the average stake size taken by SWFs in direct investments fell from 35% to 25%. For the most part, the transactions where SWFs acquired a controlling stake were in emerging market companies. Recent SWF transactions suggest that acquisitions will be smaller and more diverse in the coming years with more focus on diversifying portfolios.

The US was the leading destination for investments between 2005 and 2011, accounting for some \$76bn or 19% of the total during this period. The UK followed with \$68bn or 17% of the total. Other important destinations included China, France, Switzerland, Germany and Qatar (Chart 11). Developed economies accounted for the bulk of activity between 2006 and 2009. Emerging market countries, BRIC (Brazil, Russia, India and China) countries in particular have however accounted for most of investments since then. These countries are likely to capture a growing share of investments in the coming years.

OTHER SOURCES OF INFORMATION

International Forum of Sovereign Wealth Funds
www.ifswf.org

International Monetary Fund
www.imf.org

McKinsey & Company: The New Power Brokers
www.mckinsey.com/mgi

Monitor Group: Sovereign Wealth Fund Investment Behavior
www.monitor.com

OECD
www.oecd.org

Preqin: Sovereign Wealth Fund Review
www.preqin.com

Sovereign Wealth Fund Institute
www.swfinstitute.org

SIGN UP FOR NEW REPORTS

If you would like to receive immediate notification by email of new TheCityUK reports on the day of release please send your email address to signup@TheCityUK.com

DATAFILES

Datafiles in Excel format for all charts and tables published in this report can be downloaded from the Reports section of TheCityUK's website www.TheCityUK.com

THECITYUK RESEARCH CENTRE

Report author: Marko Maslakovic

For further information about our work, or to comment on the programme/reports, please contact:

Duncan McKenzie, Head of Research
duncan.mckenzie@TheCityUK.com, +44 (0)20 7776 8976

Marko Maslakovic, Economic Research Senior Manager
marko.maslakovic@TheCityUK.com, +44 (0)20 7776 8977

TheCityUK, 65a Basinghall Street, EC2V 5DZ www.TheCityUK.com
© Copyright February 2012, TheCityUK

MEMBERSHIP

To find out more about TheCityUK and the benefits of membership visit www.thecityuk.com or email us at membership@thecityuk.com

This report is based upon material in TheCityUK Limited's possession or supplied to us, which we believe to be reliable. Whilst every effort has been made to ensure its accuracy, we cannot offer any guarantee that factual errors may not have occurred. Neither TheCityUK Limited nor any officer or employee thereof accepts any liability or responsibility for any direct or indirect damage, consequential or other loss suffered by reason of inaccuracy or incorrectness. This publication is provided to you for information purposes and is not intended as an offer or solicitation for the purchase or sale of any financial instrument, or as the provision of financial advice. Copyright protection exists in this publication and it may not be reproduced or published in another format by any person, for any purpose. Please cite source when quoting. All rights are reserved.