

# The role of SWFs – Towards a new equilibrium

Edinburgh SWF Dialogue, June 15, 2010



## SWFs recover from crisis

► **Revenue erosion and decline of portfolio book values reversed**

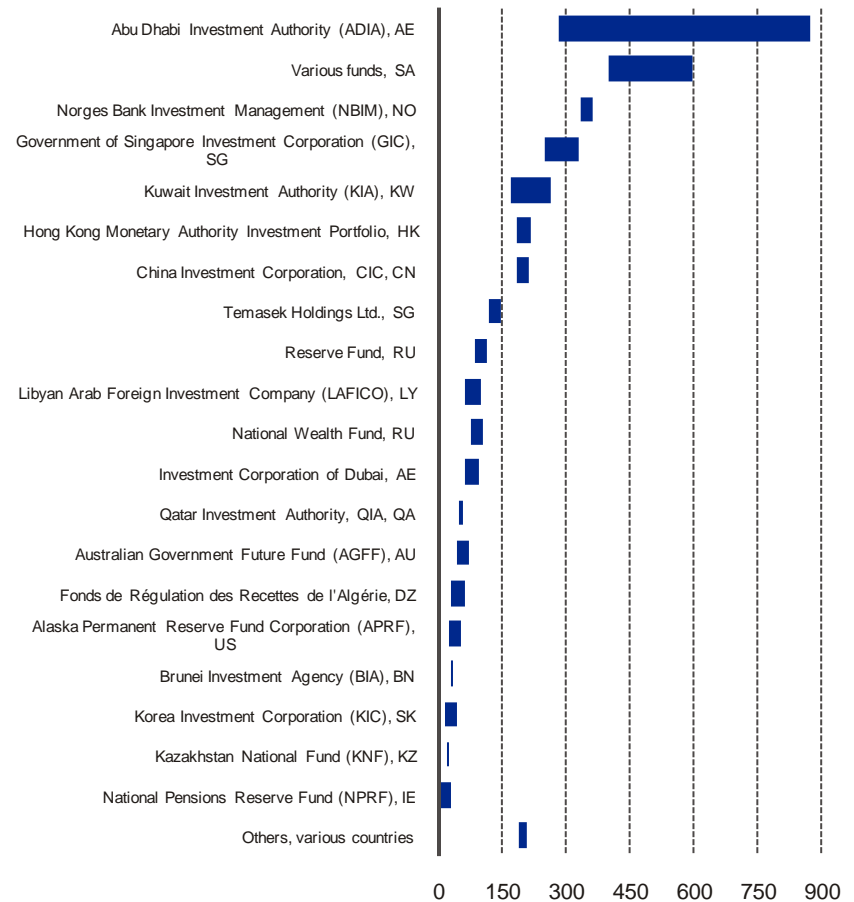
— At end-2009, assets under management of USD 3.7tr

— Recovered from 2009 trough at USD 3tr

► **Despite significant losses in book values, large funds have emerged strong from crisis**

### Major SWFs worldwide

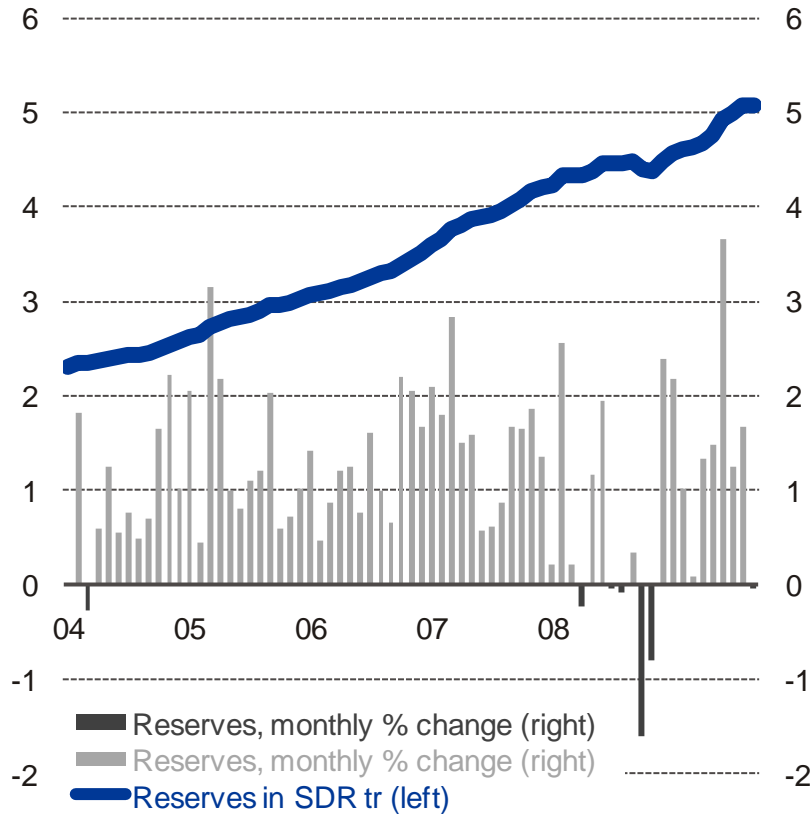
Assets under management in USD bn, estimated values or ranges, latest data available



## Erosion of receipts halted

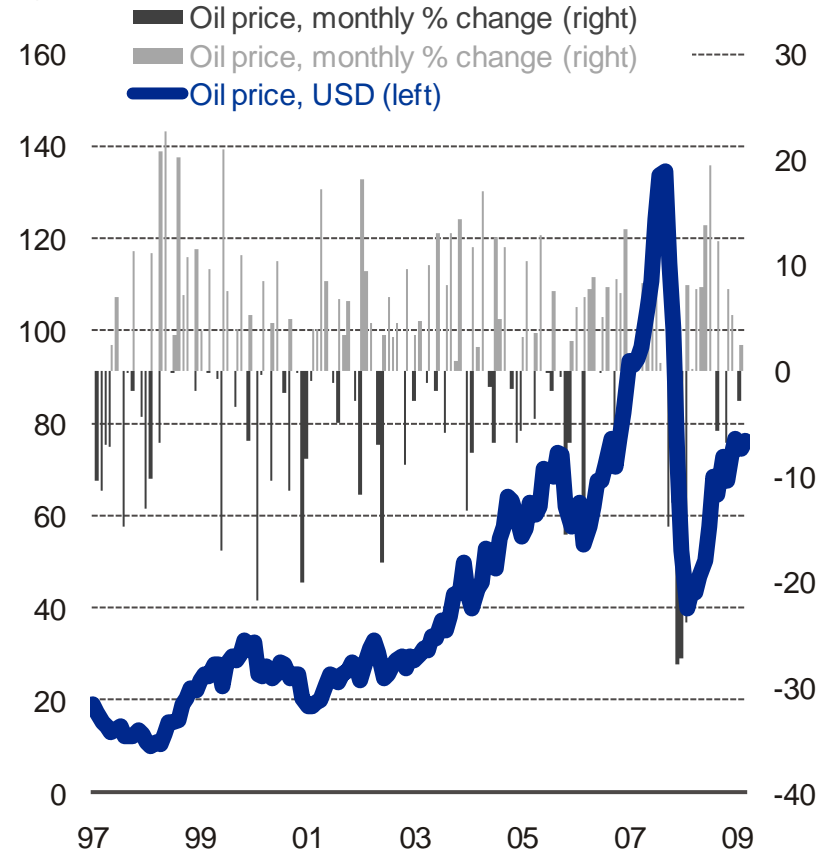
### Reserves growth unbroken

Foreign exchange reserves excl. gold in SDR tr (left), and monthly rate of change in % (right)



### Oil price recovers

Spot oil price, Brent, USD (left) and monthly change (right)

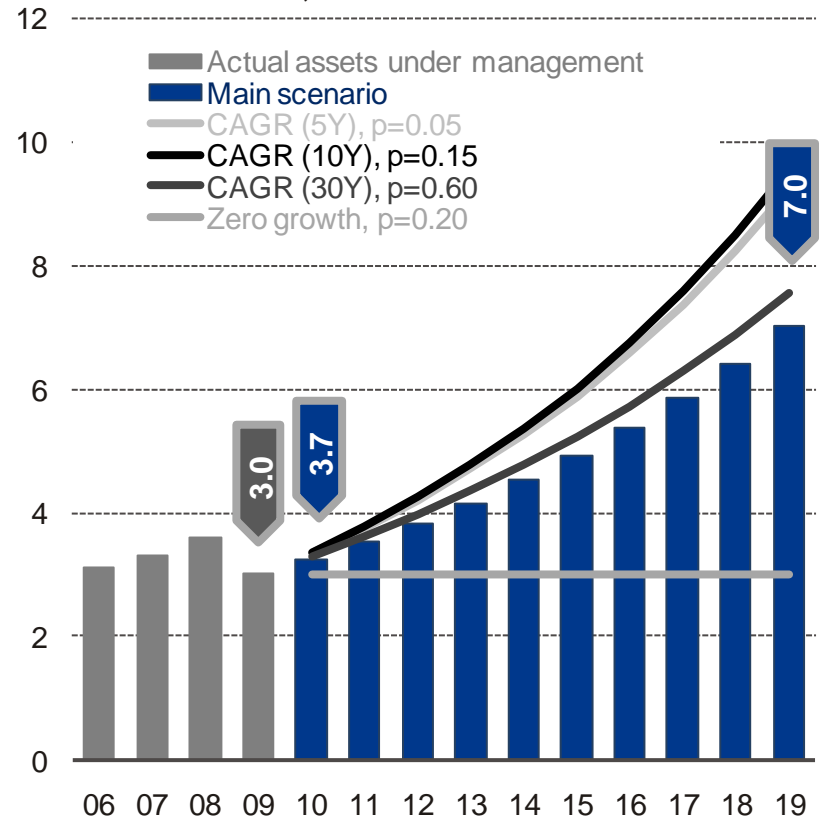


## Positive long-term prospects – unchanged

- ▶ Long-term prospects for SWFs positive, on the whole
- ▶ In 10 years, total assets under SWF management are likely to amount to USD 7 tr, more than twice the volume of today
- ▶ Given the volatility in commodities and asset markets, other scenarios are conceivable and the development of asset volumes is subject to substantial uncertainties

### SWF asset growth

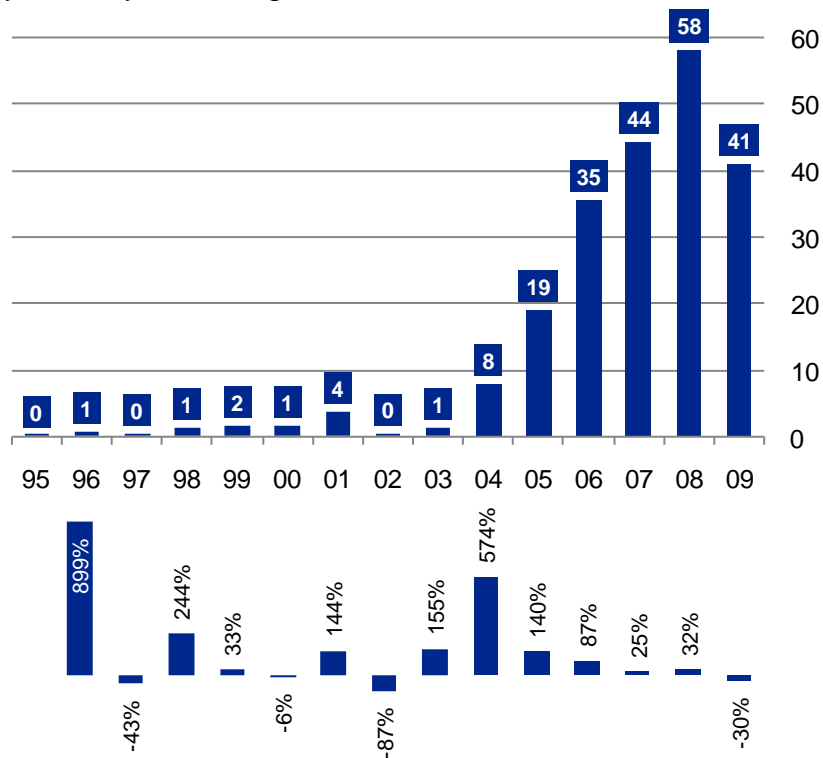
Scenarios for the development of assets managed by SWFs, based on past foreign exchange reserves growth, USD tr, estimated values 2006-2009, forecasts 2010-2019



## SWF investments surprisingly strong in 2009

### SWF investments Investment volumes over time

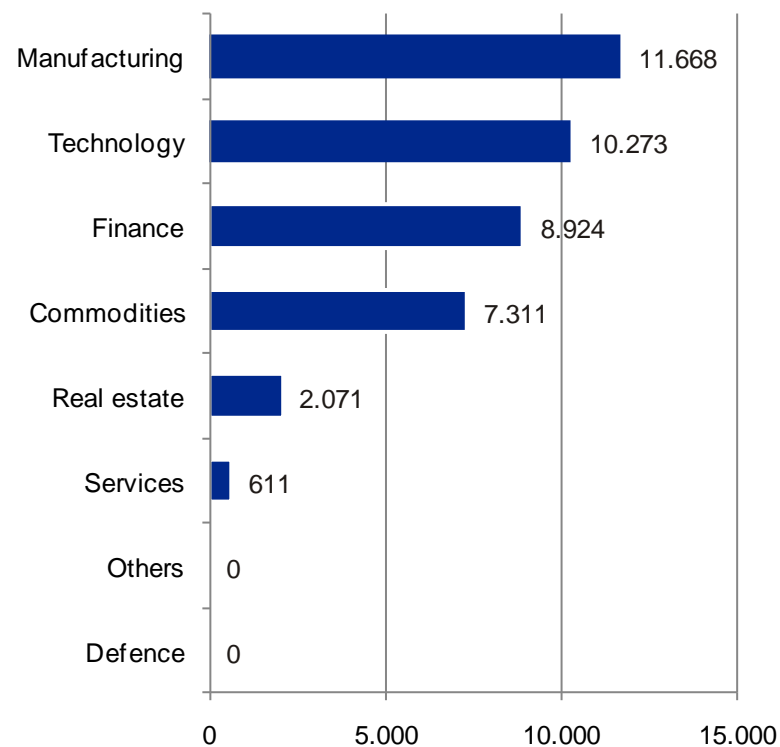
Completed investment transactions by state-sponsored investment vehicles, total annual volumes, USD bn, and year-on-year change in %



Calculation: DB Research  
Data source: Dealogic

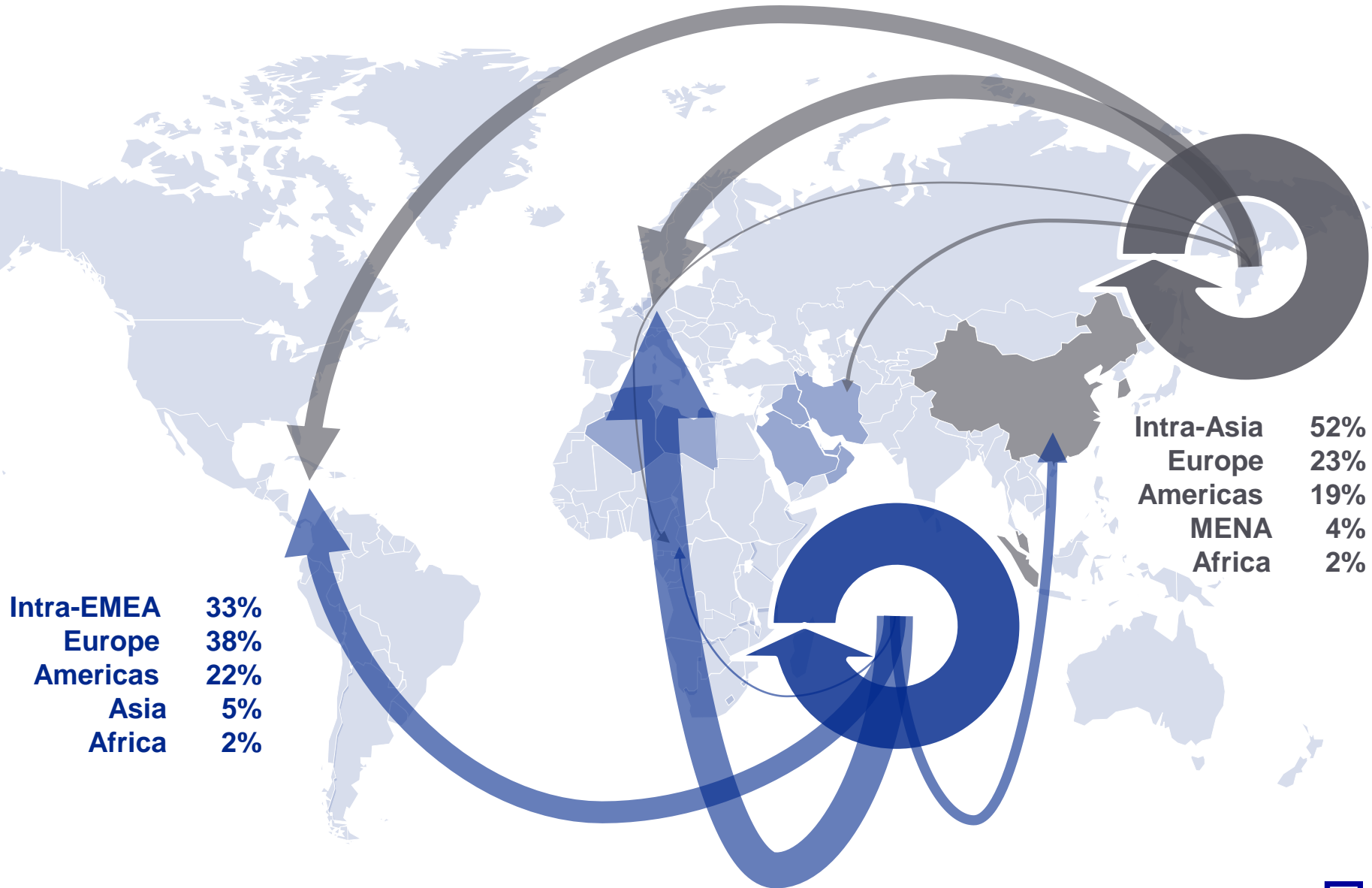
### SWF investments 2009 Sectoral distribution

Completed investment transactions by state-sponsored investment vehicles, by domicile of investor, USD mn and % of total, 2009



Calculation: DB Research  
Data source: Dealogic

## EU maintains strong position as preferred target area





## SWF governance – The Santiago process

### Principles

#### Santiago Principles

11 Oct 08

- ▶ Greater transparency
- ▶ Sound governance
- ▶ Regulatory compliance
- ▶ Financial objectives
- ▶ Financial stability
- ▶ Free investment

### Implementation

#### Kuwait Declaration

6 Apr 09

- ▶ International Forum of SWFs

#### Baku Statement

9 Oct 09

- ▶ Investment rules
- ▶ Operational controls
- ▶ Capacity building

#### Sydney Statement

8 May 2010

- ▶ Risk management
- ▶ Regulatory reform
- ▶ Greater engagement

### Reality

#### Transparency

- ▶ Progress in selected cases

#### Governance

- ▶ Progress in selected cases

#### Regulatory compliance

- ▶ No violations reported

#### Financial objectives

- ▶ No violations reported
- ▶ Mixed empirical evidence on portfolio bias

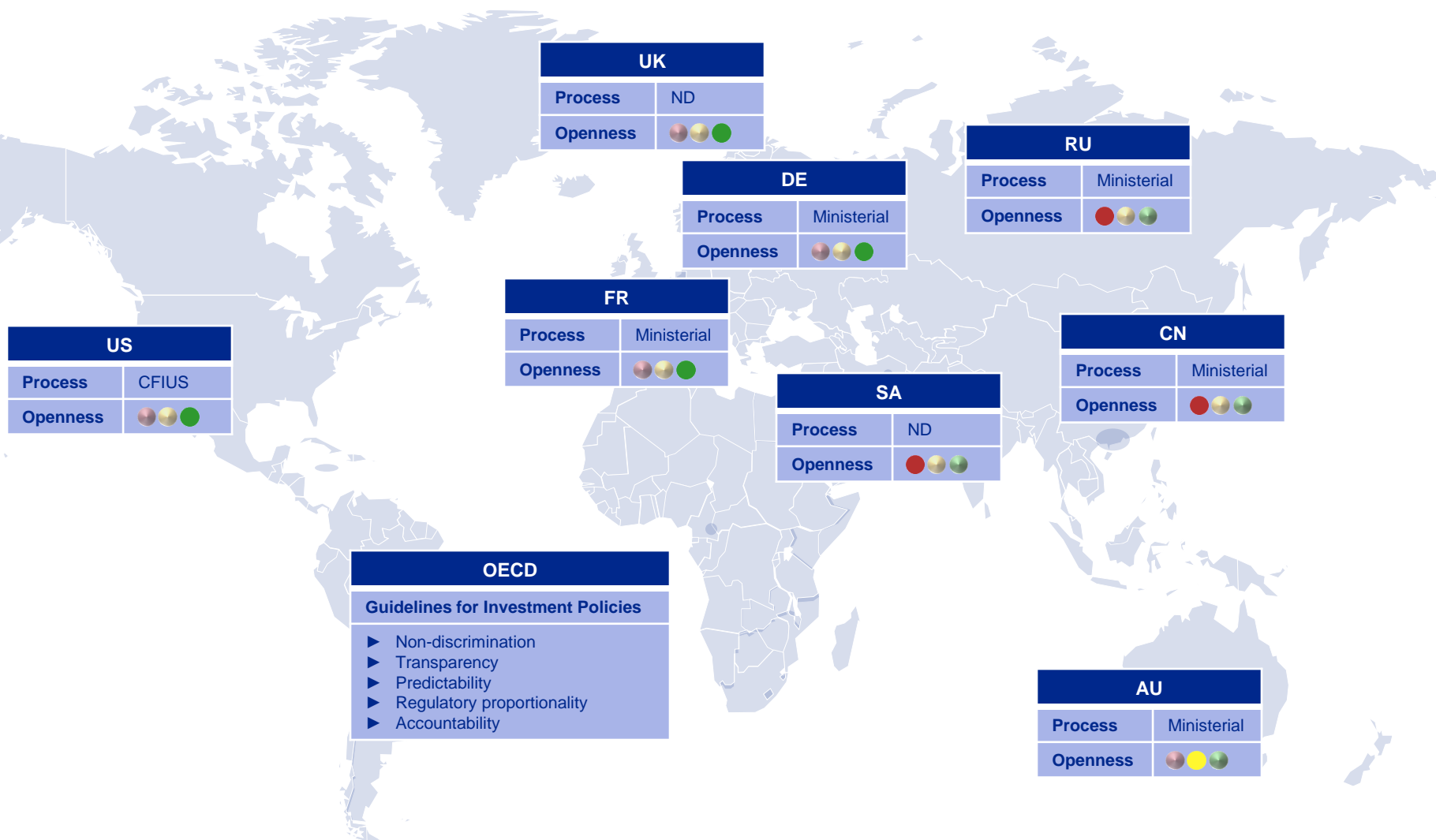
#### Financial stability

- ▶ No evidence on detrimental impact

#### Free investment

- ▶ No violations
- ▶ No progress

## Investment policies – no protectionism as crisis response



# Conclusion – towards a new equilibrium

## Economic role

### Basic savings vehicles

- ▶ SWF set to become basic accessory for surplus economies.
- ▶ Possibly, further new SWFs in selected countries.

### Relative size

- ▶ Receipts set to continue to grow.
- ▶ Considerable absolute sizes, limited relative sizes.

### Unique investors

- ▶ Investments continue to grow
- ▶ Continued heterogeneity in investment approaches
- ▶ Long-term investment horizon, and in some cases more active management, greater involvement in PE-type commitments, as differentiating characteristic

## Political impact

### No saviours

- ▶ Message that SWFs are no “saviours” or “investors of last resort” now understood in recipient countries

### No significant political bias

- ▶ Track-record of politically acceptable investments as solid basis for continued acceptance in recipient economies
- ▶ Greater ambition in implementing Santiago Principles needed

### No protectionism

- ▶ Despite isolated protectionist reflexes during crisis, continued openness of major recipient economies
- ▶ Asymmetry of market access with major EMs remains cause for concern



# Contact

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Editorial note: This presentation provides data and evidence as an update of previous Deutsche Bank Research publications on this topic, especially “SWFs and foreign investment policies – an update”, Deutsche Bank Research, Current Issues, October 22, 2008. The data provided in this presentation is valid as of March 1, 2010, unless specified otherwise. The data provided in this presentation cannot be directly compared with evidence in previous publications by Deutsche Bank Research as changes have occurred in the external databases used for this analysis and data categorisation. Authoritative or authorised information on asset sizes, asset allocation, funding, investment strategies and investment transactions of SWFs is still very scarce. The figures presented in this document have been collected from various publicly available sources and checked against public market information with the aim of maximising plausibility. Given the fragility of underlying data, all SWF-related figures and the calculations based upon them in this presentation should be considered as indicative and treated with due caution.

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