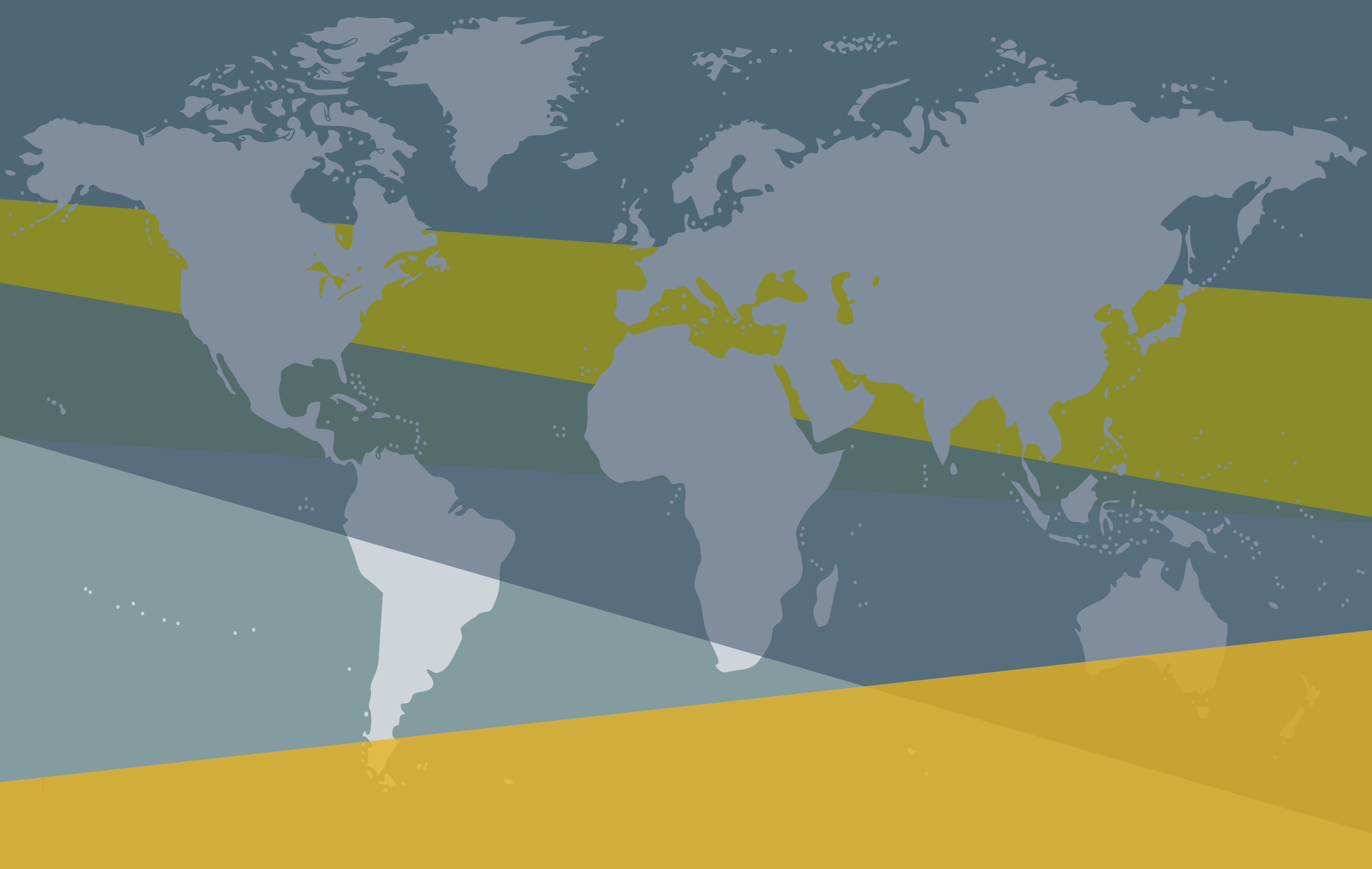
THE FOURTH

Sovereign Wealth Funds Conference Proceedings

2017



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Acronyms

AU	American University
GCC	Gulf Cooperation Council
KSB	Kogod School of Business
NCUSAR	The National Council on U.S.-Arab Relations
SIF	Strategic Investment Funds
SWFs	Sovereign Wealth Funds
SWFI	Sovereign Wealth Fund Institute

Executive Summary

American University's Kogod School of Business (KSB) convened its fourth annual Sovereign Wealth Fund (SWF) Conference on October 10, 2017 at American University (AU) in Washington, D.C. The conference examined recent changes in the roles and rules around sovereign wealth funds since last year's meeting. With the world subjected to drastic changes during 2017 — ranging from less than desirable oil prices to the oil producing countries, to more intense regional conflict in areas in the Middle East (like Yemen, Syria and Iraq), to a deficit in the Gulf Cooperation Council countries (GCC), coupled with the United Kingdom's decision to exit the European Union and a new president in the U.S. — SWFs are being challenged to accommodate new realities in the marketplace as well as the political space. The 2017 Conference was entrusted to assess the major topic of, "The Changing Roles and Rules of Sovereign Wealth Funds."

Four keynote speakers and 11 panelists presented papers and remarks.

The conference was generously supported by The Embassy of the State of Qatar in the U.S., The National Council on U.S.-Arab Relations (NCUSAR), the Kogod School of Business, and American University. Since the first Sovereign Wealth Funds Conference at American University in October 2014, the world has experienced drastic changes. Oil prices have plummeted, only partially recovering toward previous levels. Saudi Arabia maintained its production levels along with others in the OPEC. In the meantime, most oil producing countries experienced heaving reductions in revenues and consequently decided to liquidate some of their holdings in various sovereign wealth funds, borrow in the international markets, and/or issue bonds (conventional and Islamic -sukuk-) to maintain fiscal stability. The world of sovereign wealth funds changed within this context, leading some to question the real functions and missions of these funds. Thus, the major topic addressed by the fourth annual SWF conference was whether and how the roles and rules of these funds changed during the past year.

Below is a brief synopsis of the conference.

The first Keynote speaker was unable to attend, the second was a seasoned diplomat with an intimate knowledge of the GCC including the management of a very important GCC-U.S. business council. The third keynote was an executive from the World Bank, while the fourth speaker was the executive managing director of the Institute of International Finance, and the last keynote speaker was the founding president and chief executive officer of the National Council on Us-Arab Relations.

Conference speakers and panelists included representatives from The International Monetary Fund, The World Bank, The National Council on U.S.-Arab Relations, The Institute of International Finance, and major law firms representing countries from major SWFs. In addition, the conference included speakers from other boutique organizations active in the areas of finance and commerce, education, and think tanks.

SWFs, as defined by the International Monetary Fund, are "a special purpose investment fund or arrangement, owned by the general government. Created by the general government for macroeconomic purposes, SWFs hold, manage, or administer financial assets to achieve financial objectives, and employ a set of investment strategies, which include investing in foreign financial assets. SWFs are commonly established out of balance of payments surpluses, official foreign currency operations, the proceeds of privatizations, fiscal surpluses, and/or receipts resulting from commodity exports." The activities of SWFs are becoming more transparent due to changes in technology and pressures from the media.

Following the proposed 2008 Santiago Principles, individual SWFs are becoming more and more transparent due to a new spirit of sharing information, a greater commitment to be more factual in the investment sphere, and incentives to implement Principles to reap higher scores based on these Principles. Global changes on all fronts impact the operation of the SWFs. More recently, a major trend in the field has been the increasing focus of SWFs to manage their own funds and to utilize external managers only on a targeted basis, when appropriate.

The Fourth Sovereign Wealth Funds Conference was entrusted to assess "The Changing Roles and Rules of Sovereign Wealth Funds." The conference aims to generate interest in the area of SWFs in terms of new courses and research in this area, which has been largely neglected because of its particular nature and the "sovereign" focus of these funds. While the limited focus may have been true in the past, technological advancement and the growing global footprint of SWFs have increased interest in how SWFs function and interact with global financial conditions.

Presentation Summaries

Most of the speakers and panelists provided either written papers, statements, and/or PowerPoint presentation slides, all of which are being included as appendices of this proceedings.

As a background, the world and mainly the Gulf Cooperation Council Countries (GCC, major players in the SWF sector), have experienced drastic changes on several fronts: (1) relatively low oil prices for the past two years, (2) regional conflict in the area (Syria, Iraq, Yemen and the recent disrupted cooperation among the GCC countries), (3) Brexit and its impact on the EU which alters relations with the GCC, and (4) the 2017 start of a new U.S. administration. To assess the above factors, we examine the GCC, which represent 40% of SWFs worldwide. The GCC are experiencing strong population growth which is creating stress on sovereign budgets. Also, we assume that the countries in question (mostly Saudi Arabia, UAE, and Qatar) will be central in the reconstruction efforts in Syria, Yemen, and Iraq, which will create additional financial obligations and stress on the GCC as well.

If we focus on recent SWF activities, we notice more involvement in technology and investment in more risky businesses compared to their historical tradition of investing in real estate and other stable equities. In addition, increased SWF investment is being directed to emerging markets, including India and China, among others.

The 2017 change in the U.S. administration was associated with the growing trend of economic nationalism and a figurative “declaration of war” on countries and companies who were instrumental in “taking away” jobs from the U.S. This change signaled that a significant part of the country has bought the idea that foreigners have caused problems for the U.S. In addition, the new U.S. administration attempted to ignite conflict with the largest five economies in the world by undoing the Iran deal negotiated and signed by the Obama administration.

New types of SWFs have emerged, including Strategic Investment Funds (SIF) with the mission of promoting wealth growth for the country in question. Some SIFs are fully owned by the government, while others are partially owned by the government or some government-owned institutions. More than 30 of these SIFs have been formed in the last 15 years. The good news is that these funds are being managed with focus on the suitability of internal rates of return, are subject to economic rate of return thresholds, and are accompanied by political and partial risk guarantees. These operations are being positioned between state and private sectors, with more access to Public-Private-Partnership opportunities.

ASSESSMENT OF THE PAST

In assessing the past performance of the SWFs, the State of Qatar was mentioned as an exemplar. Two things emerged: one is that the managers of SWFs are typically highly qualified regardless of nationality, and the second is that SWFs have expanded beyond their historical comfort zone of investing in real estate into other areas like technology. As in some other GCC countries, Qatar’s budget estimate is based on approximately two-thirds of concurrent oil prices, which is a smart (and relatively conservative) move. SWF investments are based on economic/financial reasoning and not political objectives. (Alternatively, a financially poor SWF investment could be implemented simply to provide some other benefit to the host country.)

Turning the page into other investments, some SWFs have been investing in alternative asset classes with lots of cash flow (presumably to match sovereign cash obligations). In the meantime, one other SWF objective (aside from traditional capital preservation and/or growth) involves the desire to transfer technology, as in the case of Saudi Arabia and UAE. Some acquisitions have provided the SWF with opportunities to partner with major companies worldwide — quite a departure from past efforts, when SWFs were merely silent investors. Clearly, in the last few years SWFs have attempted to introduce new industries to the SWF home country to expand job opportunities for its citizens.

Is there a shift in focus between economic and political motives of SWF investments? The traditional function/ purpose of the SWF remains the same, as an insurance for fiscal imbalance when the country’s industries are struggling. Thus, SWFs remain relatively unattractive to outside investors. In this light, SWFs could be viewed as political investments rather than economic investments. Following this logic, there was a view expressed that SWFs in some of the lower per capita income GCC countries may decline in value.

In the future, SWFs are expected to create new funds. For sure, there is growing interest in green growth investment, infrastructure, and development (in addition to SIFs). SWFs view these areas as investments with unique challenges and opportunities. In the meantime, SWFs cannot ignore changes in world markets. SWFs are seen moving from the typical fixed income and cash to more broadly include public equity, private equity, real estate, infrastructure, and other alternative assets.

Crashing commodity prices were followed by the GCCs running fiscal deficits. In the search to find sources to balance budgets, SWFs were faced with the need to liquidate assets or borrow in the open markets. In other countries like Norway, the rule is that non-oil budget deficits should be, on the average, 3 percent of the SWF over time.

SWFs continue to invest domestically and abroad. In general, the best asset/debt management in a country with a growing SWF involves first paying down some of the country's debt, followed by reducing debt to create a more stabilized economy that would allow passing some surplus to the SWF as a financial cushion for future generations.

Many SWFs increasingly focus on training locals to manage these funds all over the world. These efforts create employment opportunities and provide a more local perspective to the management of these funds. This trend has decreased SWF reliance on outside help and advice. Some investments are increasingly focused on local medical and software technology, which is disproportionately important to both local investors as well as the home country firms and citizens. There is a concern that the new U.S. administration may limit investment from investors abroad to curtail future transfers of technology.

In addition, SWFs play "dollar diplomacy" from time to time. Mainly in the Middle East, where there is a higher level of uncertainty, some countries put a premium on the financial insurance provided by SWFs. It was noted that on the political side, U.S. influence is declining in the region while Russian influence is gaining ground. On the decision-making side, political leaders are taking a more aggressive approach in using wealth to advance national interests. In short, SWFs are being used in offensive and defensive politics. The warning is justified, "money in politics is a combustible mixture, and if you don't get the formula right, it can blow up in your face."

A departure from current thinking, some believe there is a need to drastically change the use of some financial indicators and measurements applied to making investment recommendations. Therefore, relying on standard indicators is not the way to develop recommendations for the SWFs investment. The way forward is to focus on operational efficiencies and to expand business models across the investment sphere, while in the meantime exploring how to create teams to focus on business models across industries that can generate value. In a sense, part of the effort should be to create and develop SWF talent. SWF investment should be direct investment and should stay away from indirect investment (e.g. via hedge funds). Future investment should focus on infrastructure, education, agriculture, healthcare, and other local industries. It is proposed that SWFs work as a coalescing agent to bring government, business, investors, and entrepreneurs together to maximize the country's general welfare.

If we look at the finance world, there are inequities in decision making. Some of the GCC countries have invested heavily in training their citizens all over the world. The interrelationship between the GCC and the U.S. is very close and rewarding. For example, we have military bases in Bahrain, Qatar, and facilities in Kuwait, among others. Gulf oil benefited from Kuwait's loan when it was having financial problems. Saudi Arabia, in addition, has more than 300,000 citizens that were educated in the U.S. Kuwait and Qatar are building projects in the U.S. We should remember that some investments of the GCC countries have an impact on the host country in Europe as well (such as Kuwait investment in the U.K.). Q8 (owned by Kuwait) has a well-known retail gas facilities in Europe. Each of these examples highlights the interrelations between countries with SWFs and both the U.S. and Europe.

Lastly, one additional benefit of SWFs is that SWFs can facilitate the movement to privatize some government-owned businesses. This privatization (moving from government management to private management) typically results in greater efficiency and better integration of the private sector into the economic life of the country.

Above all, SWFs serve to link economic, political, and investment goals within a country. This triangle should be balanced in a way by which one area of the other must be emphasized or deemphasized from time to time, as economic and political realities dictate.

Conclusions and Next Steps

The major theme was to assess “The Changing Roles and Rules of Sovereign Wealth Funds.” The changes in the oil prices impact all oil producers. Budget imbalances, regional conflicts, Brexit, and the new U.S. administration have all affected the current and the future of the SWFs worldwide. SWF operations are also impacted by these changes. Worldwide, more countries have become interested in establishing and developing their own SWFs.

It is clear that SWFs were subjected to so many changes in the past year. In the face of these changes, SWFs have entered new sectors, focused increasingly on their domestic markets, and continue to navigate uncharted waters in some emerging markets. Fiscal difficulties have made getting involved in more risky projects more acceptable. Involvement in some historically “forbidden” ventures is also becoming more acceptable. The appetite to invest in technology, infrastructure, healthcare and other new areas is increasing. In short, SWFs are reacting to the marketplace changes by accepting the challenge to alter their strategies.

The next step is to continue assessing developments which are taking place within the SWF space, including the changes in asset allocations and shifting fund allocations for political purposes. It remains to be seen how SWFs will react to the changes in the political and financial terrain of Europe, the continuing economic development in the Middle East, and the changing role of the world superpowers. Some of these issues are topics to be addressed during the Fifth Sovereign Wealth Funds Conference which will take place on Wednesday, October 2018, at American University.

I would like to acknowledge the enormous help received from the distinguished guest speakers and panelists. Dr. Harris, the Conference co-organizer, provided valuable input in developing questions for the conference to address, suggestions for structuring the conference, and editing assistance for this volume. Thanks also to Dr. Michael Papaioannou for his continued support of this conference over the last four years. In addition, many thanks to Dr. Timothy Timura who capably presented the closing remarks at the Conference as a substitute for Dr. Harris.

A special thanks goes to Robert Brockmeijer, the Conference Coordinator, who worked tirelessly to have these proceedings ready for publication in its final format, from editing to organizing the contents. Lastly, many thanks to my colleagues from Kogod who helped with this conference along with many wonderful volunteers.

Ghiyath Nakshbendi

For further information, contact me at: gnakshbendi@yahoo.com.

Fourth Sovereign Wealth Fund Conference Agenda

THE CHANGING ROLES AND RULES OF SOVEREIGN WEALTH FUNDS

Wednesday, October 11, 2017

7:30 – 8:00 AM	**Registration and Breakfast**
8:00 – 8:10 AM	**Welcome** **Senior Associate Dean for Academic Affairs Dr. Ajay Adhikari** Kogod School of Business, American University
8:10 – 8:20 AM	**Opening Remarks** **Dr. Ghiyath Nakshbendi** International Business Department, Kogod School of Business, Affiliate Faculty, School of International Service, American University
8:20 – 9:20 AM	**Keynote Remarks** **H.E. Dr. Hazem Beblawi** *Executive Director, International Monetary Fund; Former Prime Minister, Arab Republic of Egypt [Absent]* **Ambassador (Ret.) Patrick N. Theros** *General Partner, Theros & Theros, LLP* **Mr. Michel Noel** *Head of Investment Funds, Finance & Markets, The World Bank*
9:30 – 10:30 AM	**Panel A: Assessment of the Past** **Moderator: Dr. Abderrahim Foukara** *Bureau Chief and host of Min Washington (From Washington), Al-Jazeera Satellite Channel, Washington D.C.* **Mr. Mohammed Barakat** *Managing Director, US-Qatar Business Council* **Mr. Omar Namoos** *Founder, Greystone Advisory Group* **Mr. John Vogel** *Senior Counsel, Crowell & Moring LLP* **Dr. John Willoughby** *Professor, Department of Economics, College of Arts and Science, American University*
10:30 – 11:00 AM	**Coffee and Networking Break**
11:00 AM – 12:00 PM	**Panel B: The Future Expectations** **Moderator: Dr. Michael Papaioannou** *Visiting Scholar and Professor at the LeBow School of Business, Department of Economics, Drexel University* **Dr. Abdullah Al-Hassan** *Economist, International Monetary Fund* **Mr. Geoffrey Davis** *Partner, Squire Patton Boggs* **Ambassador (Ret.) Adam Ereli** *President, C&O Resources*

Mr. Bayasgalan Rentsendorj
Senior. Membership Manager, International Forum of Sovereign Wealth Funds (IFSWF)

Dr. Timothy Timura
Dept. of Finance, Kogod School of Business, American University

12:15 – 1:30 PM **Lunch**

Keynote Remarks: Dr. John Duke Anthony
Founding President and Chief Executive Officer, National Council on U.S.-Arab Relations

Mr. Hung Q. Tran
Executive Managing Director, Institute of International Finance

1:40 – 1:50 PM **Closing Remarks**

Dr. Timothy Timura
Dept. of Finance, Kogod School of Business, American University

1:50 – 2:00 PM **Conference Adjournment**

Dr. Ghiyath Nakshbendi
International Business Department, Kogod School of Business, Affiliate Faculty, School of International Service, American University

2:00 – 3:00 PM **Networking**

Speaker Biographies

Dr. John Duke Anthony
Founding President, National Council on U.S.-Arab Relations

John Duke Anthony is the Founding President and Chief Executive Officer of the National Council on U.S.-Arab Relations. On June 21, 2000, H.M. King Muhammad VI of Morocco knighted Dr. Anthony, bestowing upon him the Medal of the Order of Ouissam Alaouite, the nation of Morocco's highest award for excellence. Dr. Anthony currently serves on the United States Department of State Advisory Committee on International Economic Policy and the Committee's Subcommittee on Sanctions. Dr. Anthony is the only American to have been invited to each of the Gulf Cooperation Council's Ministerial and Heads of State Summits since the GCC's inception in 1981. Annually since 2009, he has chaired and served as the core lecturer in the Council's Annual 10-Week University Student Summer Internship Program's yearly Academic Seminar on "Arabia and the Gulf." He is former Chair, Near East and North Africa Program, Foreign Service Institute, U.S. Department of State as well as former Chair of the Department's Advanced Arabian Peninsula Studies Seminar.

Dr. Hazem Beblawi
Executive Director, International Monetary Fund; Former Prime Minister, Arab Republic of Egypt

Hazem Beblawi is the Executive Director for the constituency of Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, Syria, United Arab Emirates, and Yemen in the International Monetary Fund (IMF), since November 1, 2014. In this capacity, he serves on the 24-member Executive Board of the IMF. Hazem Beblawi was Prime Minister of Egypt from 2013-2014. Previously, he was the Deputy Prime Minister and Minister of Finance of Egypt from July-December 2011. He was an Advisor in the Arab Monetary Fund on from 2001-2011. During 1995-2000, Mr. Beblawi was the Executive Secretary at the U.N. Economic and Social Commission for Western Asia (ESCWA). Mr. Beblawi was the Chairman and CEO of the Export Development Bank of Egypt during 1983-1995. Mr. Beblawi holds a PhD in economics from the University of Paris. He also studied law and Political Economy at Cairo University. Mr. Beblawi is married, with three children. He is the author of several books, mostly on banking, finance, international trade and development. He also writes articles in a column for Al Ahram, a well-renowned Egyptian newspaper. Mr. Beblawi was awarded Chevalier de le Legion d'Honneur, France; Commandeur, "Leopold II," Belgium; Grand Officier, "Cedre du Liban;" and is a recipient of an "Order of Merit" from the Republic of Egypt.

Mr. Michel Noel
Head of Investment Funds, Finance & Markets, The World Bank

Michel Noel is currently Head of Investment Funds in the Finance and Markets Global Practice, Equitable Finance and Institutions Vice-Presidency of the World Bank. Previously, Michel was Practice Manager for Non-Bank Financial Institutions in the Finance and Markets Global Practice and Lead Financial Sector Specialist in the Africa Region and in the Europe and Central Asia Region of the Bank. He was on secondment from the Bank to Dexia Asset Management in Geneva and London from 2000 to 2003 working on local infrastructure private equity funds. Previously, Michel held a number of positions in the Africa and Europe and Central Asia Regions of the Bank. He also consulted for the OECD Development Research Center in Paris. Michel holds a MA in Economics and Social Sciences from the University of Namur, Belgium.

Ambassador (ret.) Patrick Theros
General Partner, Theros & Theros, LLP

Patrick Theros is a general partner at Theros & Theros, LLP. Prior, he was President and Executive Director of the US-Qatar Business Council. Amb. Theros also serves as Member of the Board of Advisors for the Center for Contemporary Arab Studies, Georgetown University and Member of the Board of Directors, Qatar Foundation, USA. Amb. Theros served as U.S. Ambassador to Qatar from 1995 until his retirement from the U.S. Foreign Service in 1998. He previously held the position of Deputy Coordinator for Counterterrorism, responsible for the coordination of all U.S. Government counterterrorism activities outside the United States.

Mr. Hung Q. Tran
Executive Managing Director, Institute of International Finance

Hung Q. Tran is the Executive Managing Director of the Institute of International Finance (IIF),assisting in the overall management of the IIF while also leading the Global Capital Markets Department. Prior to his work at the IIF, Mr. Tran served for six years at the International Monetary Fund as Deputy Director, Monetary and Capital Markets Department, where his responsibilities included the overall management of the Fund's semi-annual Global Financial Stability Report. He also served from 1998 to 2001 in London as the Managing Director, Chief Economist/ Global Head of Research for Rabobank International. He had spent the prior 12 years with Deutsche Bank with assignments in New York, Frankfurt and Singapore including serving as Director of Global Fixed Income Research from 1987-1990 and as Co-Founding Managing Director of Deutsche Bank Research from 1991-1995 and as Head of Equity Business for the Deutsche Bank Group in Asia-Pacific (1995-1998). Earlier in his career he had worked in international fixed income research for Merrill Lynch and Salomon Brothers in New York. Mr. Tran received his undergraduate and graduate degrees in Economics from California State University and completed the doctoral program in Economics at New York University.

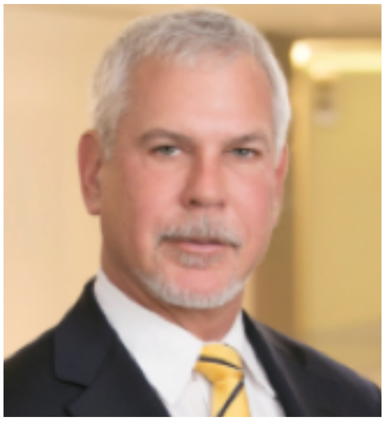
Panelist Biographies

Dr. Abdullah AlHassan
Economist, IMF; aalhassan@imf.org, +1-202-701-9319

Abdullah is an economist at the IMF. He has more than 8 years of experience covering a wide range of financial stability issues. He has also been involved in designing macroeconomic and financial policies, assessing financial safety nets, developing government debt markets, and issues relating to sovereign asset and liability management. He worked on several countries across different regions in the context of Article IV consultations, FSAP, IMF lending programs, and TAs. Abdullah led several missions on sovereign asset management, public debt management, and macro-financial stability issues. During 2012-14, he coordinated the work of the International Forum of Sovereign Wealth Funds, and updated the IMF's Guidelines for Foreign Exchange Reserve Management. Abdullah published several papers in both practitioner and academic journals. In 2010, he was awarded the Ibn Khaldun prize for the young economist from the Middle East Economic Association. He holds a B.A. in business administration from King Faisal University, M.S. and Ph.D. in economics from University of Kansas.

Mr. Mohammed Barakat
Managing Director, US-Qatar Business Council

Mr. Mohammed Barakat joined the U.S.-Qatar Business Council in 2013. He was Director until December 2015, when he was appointed by the Board of Directors as Managing Director of the US-Qatar Business Council. In this position, he works with the public and private sectors to promote new and expanded business relations between U.S. and Qatari companies. In addition, he is involved with and manages wide range of activities in programs, advisory services, market research, and member services. He also provides business and cultural advisory services to both U.S. and Qatari companies. Prior to joining The US-Qatar Business Council, Mr. Barakat was a Business Strategy Advisor at the U.S.-Saudi Arabian Business Council (2011-2013) where he provided business and strategy advisory services to both U.S. and Saudi companies across different industries to facilitate trade and investment between both countries. Earlier in his career, he worked in business development for a major Qatari holding group expanding their international partnership and business portfolio (2008-2011). He also worked in the United Arab Emirates as a marketing manager for a major construction and engineering group (2006-2008). Previously, and under different capacities, Mr. Barakat developed strategic business plans and provided political and economic analysis, social analysis, and security analysis for several companies and organizations in Jordan, Egypt, Bahrain, UAE, Qatar, and the United States (2004-2006). Mr. Barakat was also a defense contractor for the U.S. Defense Intelligence Agency (DIA). Mr. Barakat holds a BA in Political Science and Public Administration, as well as an Advanced Degree in Business Strategy from Cornell University. He currently resides in Washington, DC where he is actively involved with the Middle Eastern business and cultural community.



Mr. Geoffrey G. Davis
Partner, Squire Patton Boggs

Geoffrey G. Davis is Partner at Squire Patton Boggs. At the firm, he concentrates his practice in domestic and international business transactions. He has extensive global experience in private equity transactions on behalf of one of the largest private equity investors in the world and has consummated more than 200 substantial private equity transactions in the United States, Europe and Asia in recent years. Mr. Davis holds a master's degree in international law from Cambridge University.

Ambassador (ret.) Adam Ereli
President, C&O Resources
Ambassador (ret.) Adam Ereli is the President C&O Resources, a private consultancy for governments and private sector clients in the Middle East. He is also the founder and Principal of The Ibero American Group, a strategic advisory firm based in Washington DC. Ambassador Ereli is a proven leader and innovator in the fields of foreign government relations, business development, commercial advocacy, public diplomacy, media relations and crisis communications. As Vice Chairman of Mercury Public Affairs from 2013-2016, Ambassador Ereli led the firm's international practice and represented large corporate and sovereign accounts, including the Governments of Qatar, Nigeria, Uganda and Japan. As a diplomat for 24 years with the U.S. Department of State, Ambassador Ereli established a network of close relationships at the senior levels of government and business in the United States and the Middle East. He served as U.S Ambassador to the Kingdom of Bahrain (2007-2011), Deputy State Department Spokesman (2003-2006) Principal Deputy Assistant Secretary of State for Educational and Cultural Affairs (2011-2013), Minister-Counselor for Public Affairs in Iraq (2008-2009), Deputy Chief of Mission in Qatar (2000-2003), in addition to diplomatic postings in Egypt, Syria and Yemen and Ethiopia. Ambassador Ereli has a Bachelor's degree from Yale University and a Master's degree from the Fletcher School of Law and Diplomacy at Tufts University. He speaks French and Arabic.

Dr. Abderrahim Foukara
Bureau Chief and host of Min Washington (From Washington), Al-Jazeera Satellite Channel, Washington D.C.

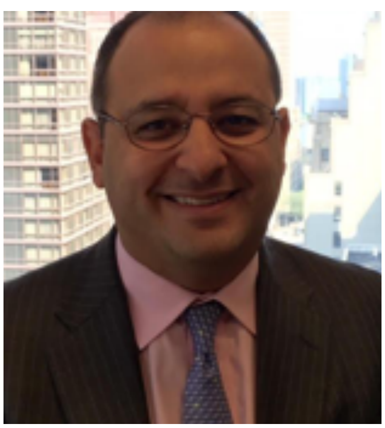
Abderrahim Foukara is Al-Jazeera Satellite Channel's Washington DC Bureau Chief and host of Min Washington (From Washington), one of the Arab world's most successful and influential shows. Min Washington offers Arab viewers in-depth and well-informed analysis of U.S. affairs and their impact on North Africa and the Middle East. As a veteran journalist with unique insight into U.S. as well as Middle East politics, Abderrahim Foukara has been an essential voice in the U.S. media's coverage of the Arab Spring, bringing more clarity and context to it, appearing as a commentator on Face the Nation, CNN, and NPR, among others. Time Magazine featured him in its Feb 22, 2011 issue as part of its focus on Al Jazeera's coverage of the region's dramatic changes. Prior to joining Al-Jazeera in 2002, Dr. Foukara was Senior Editor of AllAfrica.com, one of the world's largest providers of African news and analysis. He came to that position from The World, a Boston-based co-production of the BBC World Service, PRI, and WGBH-Boston. Dr. Foukara moved to the United States in 1999 from London where had worked in various capacities at the BBC for nine years. Born in Morocco, he holds a Ph.D. in Apartheid Studies.

Dr. Jeffrey Harris
Gary D. Cohn Goldman Sachs Chair In Finance, Chair, Finance and Real Estate Department, Kogod School of Business, American University; Director and Chief Economist, Division of Economic and Risk Analysis (DERA), U.S. Securities and Exchange Commission

Director and Chief Economist, Division of Economic and Risk Analysis, U.S. Securities and Exchange Commission, 2017-present. Gary Cohn Goldman Sachs Chair in Finance, Kogod School of Business, American University, 2013-2017. Dean's Chair in Finance, Whitman School of Management, Syracuse University, 2011-2013. Professor, University of Delaware, 2006-11. Ph.D., Business Administration, Finance,The Ohio State University, 1995. M.B.A., Finance, The University of Iowa, 1987. B.A., Physics, Economics Minor, The University of Iowa, 1986

Dr. Ghiyath Nakshbendi
Executive in Residence, Kogod School of Business International Business Department, American University

Ghiyath Nakshbendi is Executive in Residence at American University. He was one of the first group of sovereign wealth funds experts working for Kuwait Investment Authority headquarters in Kuwait, the oldest sovereign wealth fund in the world at the time. He teaches graduate and undergraduate courses in project finance, microfinance, export-import management, international business and the global marketplace. Ghiyath was a pioneer in introducing Islamic finance to American University. He has extensive international business experience. His early career in academia which was followed by more than 35 years working in developmental financing, Sovereign Wealth Funds (SWFs) and commercial real estate. Dr. Nakshbendi has worked in business in 15 countries in the Middle East and North Africa, the U.K., France and Switzerland. He is active in U.S. and international organizations and has frequent international and domestic speaking engagements, including two speaking tours with the U.S. State Department. Ghiyath is a Fulbright scholar.



Mr. Omar Namoos
Founder, Greystone Advisory Group

Omar Namoos is the Founder of Greystone Advisory Group, a provider of financial advisory and investment banking services to corporate and financial investors globally. During his career, Mr. Namoos has provided strategic advice to leading industrial and capital goods manufacturers and service providers. He has advised clients on mergers and acquisitions, public debt and equity offerings and alternative capital raising transactions, among others. Mr. Namoos was most recently a Managing Director at Mizuho Bank. Prior to that, he was a Managing Director at Evercore Partners where he led the North American Aerospace & Defense practice and an Executive Director in Corporate Finance at UBS Investment Bank, where he served as a senior coverage officer for their North American aerospace and defense industry. He also previously held positions at Morgan Stanley, J.P. Morgan and Booz Allen & Hamilton. Mr. Namoos served as a Captain in the U.S. Air Force where he earned several citations for exemplary performance and meritorious service. He received a BS in electrical engineering at University of California, Los Angeles, an MS in electrical engineering from the University of California, Irvine and an MBA from the Anderson School at UCLA.

Dr. Michael Papaioannou
Visiting Scholar and Professor at the LeBow School of Business, Department of Economics, Drexel University

Dr. Michael G. Papaioannou is a Visiting Scholar and Professor at the LeBow School of Business, Department of Economics, Drexel University and serves as an Expert at the International Monetary Fund. He was a Deputy Division Chief at the Debt and Capital Markets Instruments, Monetary and Capital Markets Department of the International Monetary Fund until July 2017. While at the IMF, he served as a Special Adviser to the Governing Board of the Bank of Greece and led numerous IMF missions on establishing and managing SWFs, designing and implementing sovereign asset and liability management frameworks, and developing economic and financial policies for emerging and developed countries. Prior to joining the IMF, he was a Senior Vice President for International Financial Services and Director of the Foreign Exchange Service at the WEFA Group (Wharton Econometrics Forecasting Associates) and served as Chief Economist of the Council of Economic Advisors of Greece. He has also taught as Adjunct Associate Professor of Finance at Temple's FOX School of Business and was a Principal Research Fellow at the University of Pennsylvania, Department of Economics, LINK Central. He holds a Ph. D. in Economics from the University of Pennsylvania and an M.A. in Economics from Georgetown University, and has published extensively in the area of international finance.

Mr. Bayasgalan Rentsendorj
Senior Membership Manager, International Forum of Sovereign Wealth Funds

Bayasgalan Rentsendorj is Senior Membership Manager at the International Forum of Sovereign Wealth Funds, based in London.Prior to joining IFSWF, Bayasgalan was a Senior Research Officer at International Monetary Fund in Washington DC, where he published research on SWF strategic asset allocations and managed a knowledge-sharing platform for IFSWF Member SWFs. Bayasgalan has also worked with the Asian Development Bank and the Bank of Mongolia (The Central Bank). He is also a Fellow at Bocconi University's Sovereign Investment Lab.Bayasgalan is a graduate of Williams College in Massachusetts, where he earned a MA in Policy Economics. He received his MBA with distinction from the University of Oxford.

Dr. Timothy Timura
Dept. of Finance, Kogod School of Business, American University

Dr. Timothy Timura, CFA is an Executive in Residence in Finance and Real Estate and the Faculty Director of the Student Managed Investment Fund (SMIF) and the Real Estate Investment Trust Fund (REIT). Prior to Kogod, Professor Timura spent over 30 years as an institutional money manager with Federated Investors, the State Teachers Retirement System of Ohio, and Principal Financial. A Chartered Financial Analyst and a University of Wisconsin-Madison Applied Security Analysis Program alumnus, Timothy earned doctorates from the University of Pennsylvania and Case Western Reserve University and completed post doctoral studies (with a focus on Alternative Assets) at the University of Florida-Gainesville.

Mr. John Vogel
Senior Counsel, Crowell & Moring LLP

John Vogel is a senior counsel and member of the Corporate Group in Crowell & Moring's Washington, D.C. office. John represents U.S. and foreign companies in conventional and Islamic equity and debt public and private financing transactions involving real estate investment, leasing and infrastructure projects, as well as restructurings, privatizations, project financings, and domestic and cross-border joint ventures and commercial contracts. He has represented sovereign wealth funds in the direct and indirect acquisition, management, and disposition of U.S. real property, and in connection with the liquidation in over 40 countries of one of the world's largest international banks following its collapse. John is president and chairman of the board of the Fulbright Association, the U.S. alumni organization of over 100,000 Fulbright Scholarship recipients. He has taught Islamic finance at the University of Pennsylvania Law School and Georgetown Law School, and he has spoken on international panels and written extensively on the subject of Islamic finance. John was recognized by the Finance Monthly Law Awards 2017 as Islamic finance lawyer of the year for the U.S

Dr. John Willoughby
Professor, Department of Economics, American University

John Willoughby is a Professor at American University. He has recently returned from a two-year stay in Sharjah, United Arab Emirates, where he helped create an undergraduate economics program at the new American University of Sharjah. Dr. Willoughby has also taught at the American University in Cairo as a visiting professor. His teaching interests include European Economic History, American Economic History, Political Economy, and History of Economic Thought. Dr. Willoughby holds a PhD in Economics from the University of California, Berkeley, and a MA in Economics from Cambridge University.

Written Remarks by Dr. Abdullah Alhassan

As commodity prices may stay low for longer, it is critical to assess the relationship between bridging financing gaps and asset accumulation/liquidation of SWFs, within a broader context of SALM. Thus, there is a need to align the management of the SWF to the fiscal framework through inflow and outflow rules, the balance between debt repayment and asset accumulation, and appropriate investment strategies that timely meet financing needs.

While many resource-based economies faced the recent decline in commodity prices from a position of financial strength, it is critical to further develop an asset-liability framework given financing needs over the short to medium-term. Thus, it will be necessary to integrate the management of sovereign assets and liabilities in a manner to maximize the resilience of the sovereign balance sheet. In this context, appropriate assessments of liquidity risk on both the asset and liability sides of the sovereign balance sheet will play a central part.

Slideshow of Mr. Michel Noel

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What is a strategic investment fund?

- Strategic Investment Funds (SIFs) are special purpose investment funds that exhibit all of the following six characteristics:

1. Are **sponsored and/or fully or partly capitalized by a government**, by several governments, or by government-owned global or regional finance institutions;

1. Invest to achieve **financial as well as economic returns**, in accordance with a double bottom-line objective;

2. Aim to **crowd-in private capital** to investment in key economic sectors;

1. Operate as **expert investors** on behalf of their sponsors;

1. Provide **long-term patient capital** primarily as equity. But may also invest in quasi-equity or debt;

1. Are established as **investment funds** or **investment corporations**.

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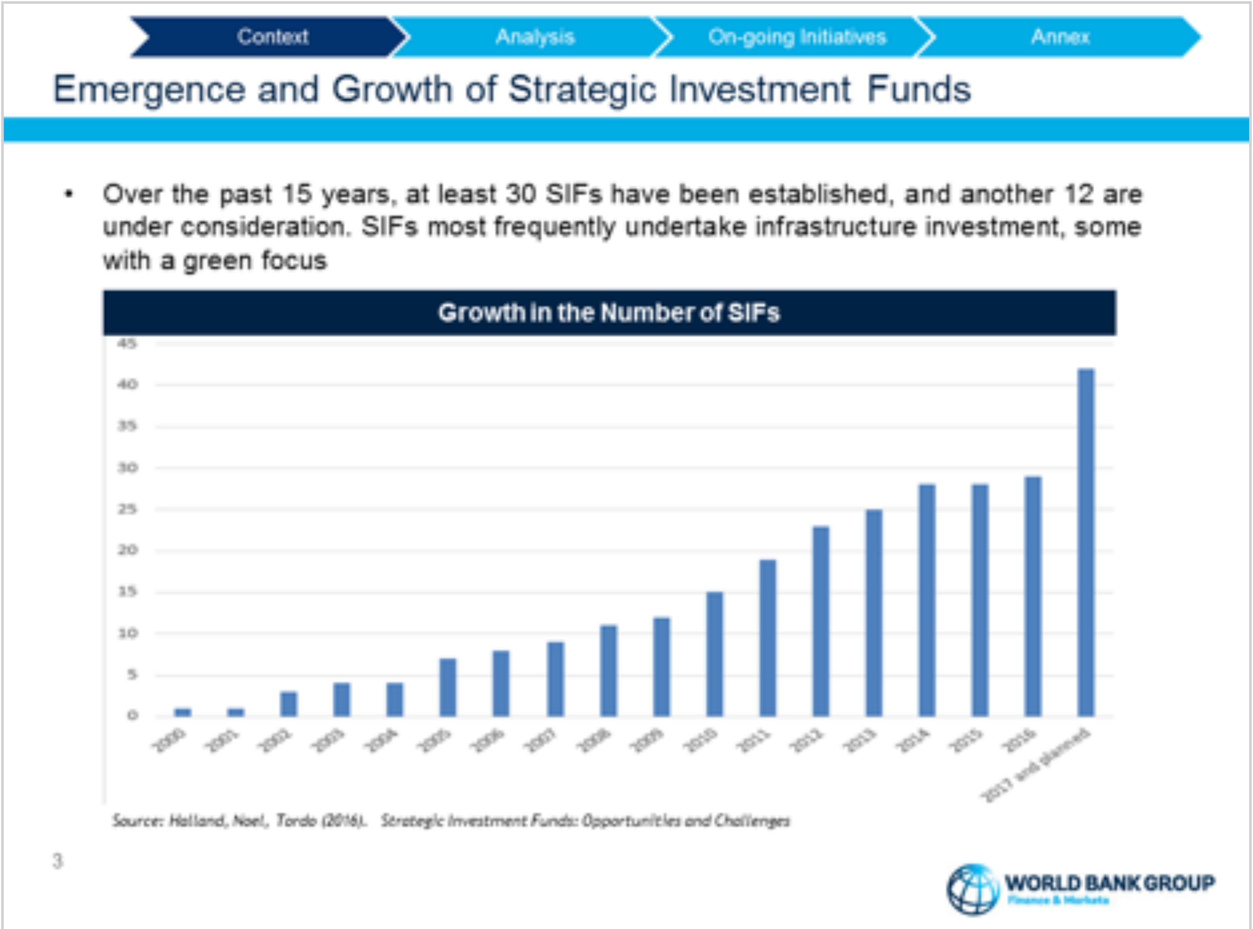
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Emergence and Growth of Strategic Investment Funds
• Over the past 15 years, at least 30 SIFs have been established, and another 12 are under consideration. SIFs most frequently undertake infrastructure investment, some with a green focus
Growth in the Number of SIFs
45
40
35
30
25
20
15
10
5
0
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017 and planned
Source: Halland, Noel, Tordo (2016). Strategic Investment Funds: Opportunities and Challenges
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Emergence and Growth of SIFs (cont'd)

List of national strategic investment funds					
Country	**Name**	**Year**	**Size ($b)**	**Financing source**	**Focus**
Abu Dhabi	Mubadala Development Company	2002	125	Oil revenues	Several sectors
Bahrain	Mumtalakat	2006	11.1	Oil revenues	Several sectors
France	BPifrance	2013	€ 32.6	Mergers of state financial institutions	Several sectors
Gabon	Fonds Gabonais d'Investissements Stratégiques	2012	0.14	Oil, budget	Several sectors
Georgia	JSC Partnership Fund	2011	1	State assets	Several sectors
India	National Infra. Inv. Fund	2016	3	Government budget	Infrastructure
Ireland	Ireland Strategic Investment Fund	2014	8,4	State assets	Several sectors
Italy	CDP Equity SPA	2011	€4,9	State assets	Several sectors
Kazakhstan	Baiterek	2013	12.7	State assets	Several sectors
Malaysia	Khazanah Nasional Berhad	1993	34.9	SOE privatization	Several sectors

Source: Authors. Note: for recently established SIFs, size refers to expected size as announced by the SIFs' government owners.

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Emergence and Growth of SIFs (cont'd)

List of national strategic investment funds (cont'd)

Country	Name	Year	Size ($b)	Financing source	Focus
Mexico	Fondo Nacional de Infrastructura	2008	14.3	Government budget	Infrastructure
Mexico	Macquarie Mexico Infrastructure Fund	2010	0.4	Invested by pension funds and FONADIN	Infrastructure
Morocco	Ithmar Capital	2011	1.8	Budget, foreign SWFs	Several sectors
Nigeria	Nigeria Infrastructure Fund (part of NSIA)	2012	0.5	Oil revenues	Infrastructure
Philippines	Philippine Alliance for Infrastructure	2012	0.6	Pension funds, ADB, Macquarie	Infrastructure
Russian Federation	Russian Direct Investment Fund	2011	13	Oil revenues	Several sectors
Senegal	FONSIS	2012	unknown	Government budget	Infrastructure, SME
Turkey	Turkish SWF	2017	unknown	State assets	Several sectors
Vietnam	Vietnam State Capital Investment Corporation	2005	1	Government budget	Several sectors
West Bank and Gaza	Palestine Investment Fund	2003	0.8	Government budget	Several sectors

Source: Authors. Note: for recently established SIFs, size refers to expected size as announced by the SIFs' government owners.

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Emergence and Growth of SIFs (cont'd)

List of multinational strategic investment funds

Region	Name	Year	Size ($b)	Financing source	Focus
Africa	Emerging Africa Infra Fund	2002	0.6	DFIs, private banks	Infrastructure
Africa	InfraCo Africa	2005	0.13	DFIs	Infrastructure
Africa	Pan African Infra Dev. Fund	2007	0.63	DFIs, private investors	Infrastructure
Africa	Africa Renewable Energy Fund	2014	0.2	DFIs, private investors	Green infra
Asia	Renewable Energy Fund	2009	0.1	DFIs	Green infra
Asia	InfraCo Asia	2010	0.1	DFIs	Infrastructure
Asia	Asia Climate Partners	2014	0.4	DFI, private investors	Green sectors
Europe	Marguerite Fund	2010	€0.7	DFIs, banks	Green infra
Europe	European Fund for Southeast Europe	2005	€0.8	DFI, private	SME finance
Global	GEEREF	2008	0.2	DFIs and private	Green infra

Source: Authors. Note: for recently established SIFs, size refers to expected size as announced by the SIFs' government owners.

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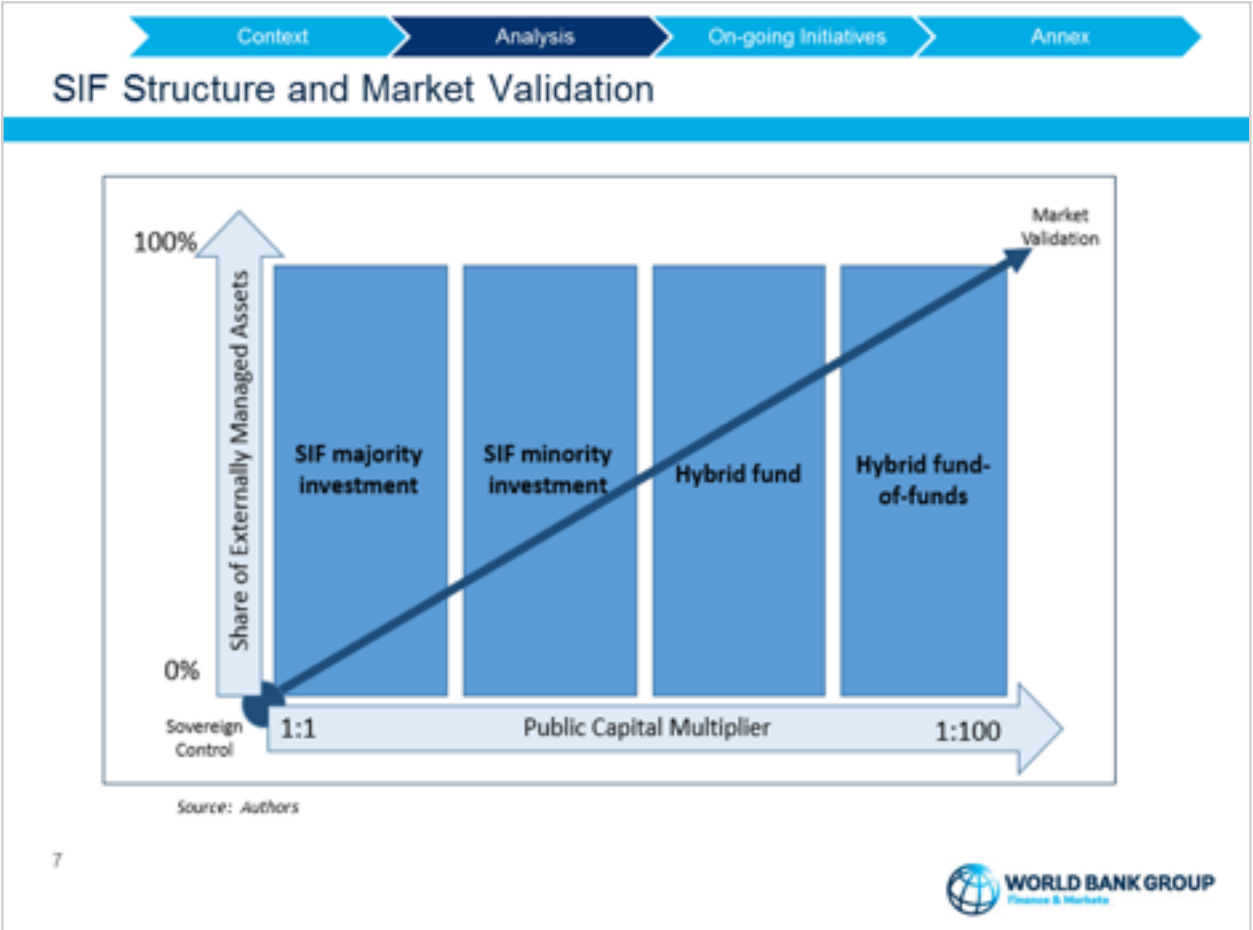
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SIF Structure and Market Validation
100%
0%
Share of Externally Managed Assets
Market Validation
SIF majority investment
SIF minority investment
Hybrid fund
Hybrid fund-of-funds
Sovereign Control
1:1
Public Capital Multiplier
1:100
Source: Authors
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SIF Double Bottom Line

- SIF objective function: maximize IRR subject to ERR threshold
- Economic analysis of projects: shadow price methodology (not implemented at this stage)
  - Shadow prices for tradeables and non-tradeables
  - Shadow prices for GHG emissions and pollution
  - Shadow discount rate under environmental uncertainty (e.g. natural disasters)
- Economic analysis of projects: simplified approaches
  - GEEREF: amount of clean power generated
  - Ireland SIF: triple criteria of additionality, displacement and deadweight

Ciste Infheistíochta Straitéisí d'Éirinn
Ireland Strategic Investment Fund
Gníomhaireacht Bainistíochta an Chisteáin Náisiúnta
National Treasury Management Agency

Example: The Double Bottom Line of the Ireland Strategic Investment Fund (ISIF)

•Started in December 2014 with a €7.6 billion capital and a target of 1:2.6 multiplier on its invested capital

•ISIF's listed investment criteria:
- Performance goal of exceeding average cost of government debt
- No withdrawals before 2025, and dividend payment of up to 4%/year
- No negative impact on net borrowing of the general government of the state

•ISIF measures economic impact by following three concepts:
- Additionality
- Displacement
- Deadweight

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Public Capital Multipliers

•Defined as the ratio of total investments to public funds invested in a certain project. The multiplier can be calculated at the fund level, at the project investment level and as a combined total.

•Although multipliers do not reflect the ability of SIFs to operate efficiently, or the wider social economic impacts of its investments, they do provide a useful indication of a fund's ability to crowd in external capital.

•However, important caveats apply:

- ***Definition*** – Multipliers may refer to different dimensions (e.g. different ratios, financing instruments, definitions of public/private capital etc.)
- ***Additionality*** – Private investment in a company/project may occur independently of public participation
- ***Projections*** – Multipliers may refer to expected rather than actual investment volumes
- ***Expectations*** – Multipliers can generate mechanistic of otherwise unrealistic expectations

Estimating Public Capital Multipliers

$$\text{Fund multiplier} = \frac{\text{total size of fund or facility}}{\text{public capital}}$$

$$\text{Investment multiplier} = \frac{\text{total invested in projects}}{\text{fund size}}$$

$$\text{Total multiplier} = \frac{\text{total investment volume}}{\text{public capital}}$$

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Public Capital Multipliers

Capital Multipliers of Selected Funds: Preliminary Estimates					
Fund	**Year**	**Capitalization**	**Fund Multiplier**	**Investment Multiplier**	**Total Multiplier**
Marguerite	2010	€710 million	1	11.8	11.8
GEEREF	2008	€112 million	2	35.8	~71
ISIF	2014	€7.6 billion	1	2.4	~2.4
PAIDF	2007	$625 million	4.2	4	16.7
PINAI	2012	$625 million	25	Unknown	~25
MMIF	2008	$408 million	5	10.3	51.7
FONSIS	2016	€28 million	1	9.6	9.6
PBCE	2012	€230 million	3	~6	~19

Acronyms: EFSI = European Fund for Strategic Investments; GEEREF = Global Energy Efficiency and Renewable Energy Fund; ISIF = Ireland Strategic Investment Fund; PAIDF = Pan-African Infrastructure Development Fund; PINAI = Philippine Investment Alliance for Infrastructure; MMIF = Macquarie Mexico Infrastructure Fund; FONSIS = Fonds Souverain d'Investissements Stratégiques; PBCE = Europe 2020 Project Bond Initiative.
Source: Adapted from Inderst (2016b).

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SIF Investment Strategy

Strategic Positioning of SIFs between the state and the private sector

•Privileged access to PPP investment opportunities

•Return enhancement instruments

- Equity first-loss
- Return Cap

•Risk mitigation instruments

- Political risk guarantee
- Partial risk guarantee

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Common Challenges of SIFs

1) Attracting Private Sector Investment

- Good governance practices
  - Separation of ownership function of government/fund sponsor
    - Oversight function of Board
    - Fund manager independence in investment and exit decisions

- SIF structure
  - Hybrid SIF: linking fund manager remuneration with multiplier benchmark at project level
  - State-owned SIF: limiting SIF investments to minority participations

- Domiciliation
  - Domestic vs. off-shore domiciliation

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Common Challenges of SIFs (cont'd)

2) Sourcing Investable projects

- PPP venture funds, private developers, and other private sector sources
- Ministries, agencies, public utilities, national/regional development plans

3) Balancing policy and commercial objectives

- Investment objectives
  - Policy imperatives over commercial considerations → risk of difficulty in attracting private investors
  - If policy objectives too loose → risk of crowding out private investment
- Performance metrics
  - ERR: comprehensive measure of economic, social, and environmental impact (but complex)
  - Proxy measures:
    - Employment creation
    - Growth of new firms
    - Reduction in carbon emissions
    - Confined investment universe

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Common Challenges of SIFs (cont'd)

4) Sourcing the right staff

•Successful SIFs have recruited experienced investment professionals from the private financial sector. This requires the right approach towards:

- Human capital
- Critical skills
  - Financial awareness
  - Commercial awareness
  - People skills
- Staff remuneration policy
- Role of the diaspora

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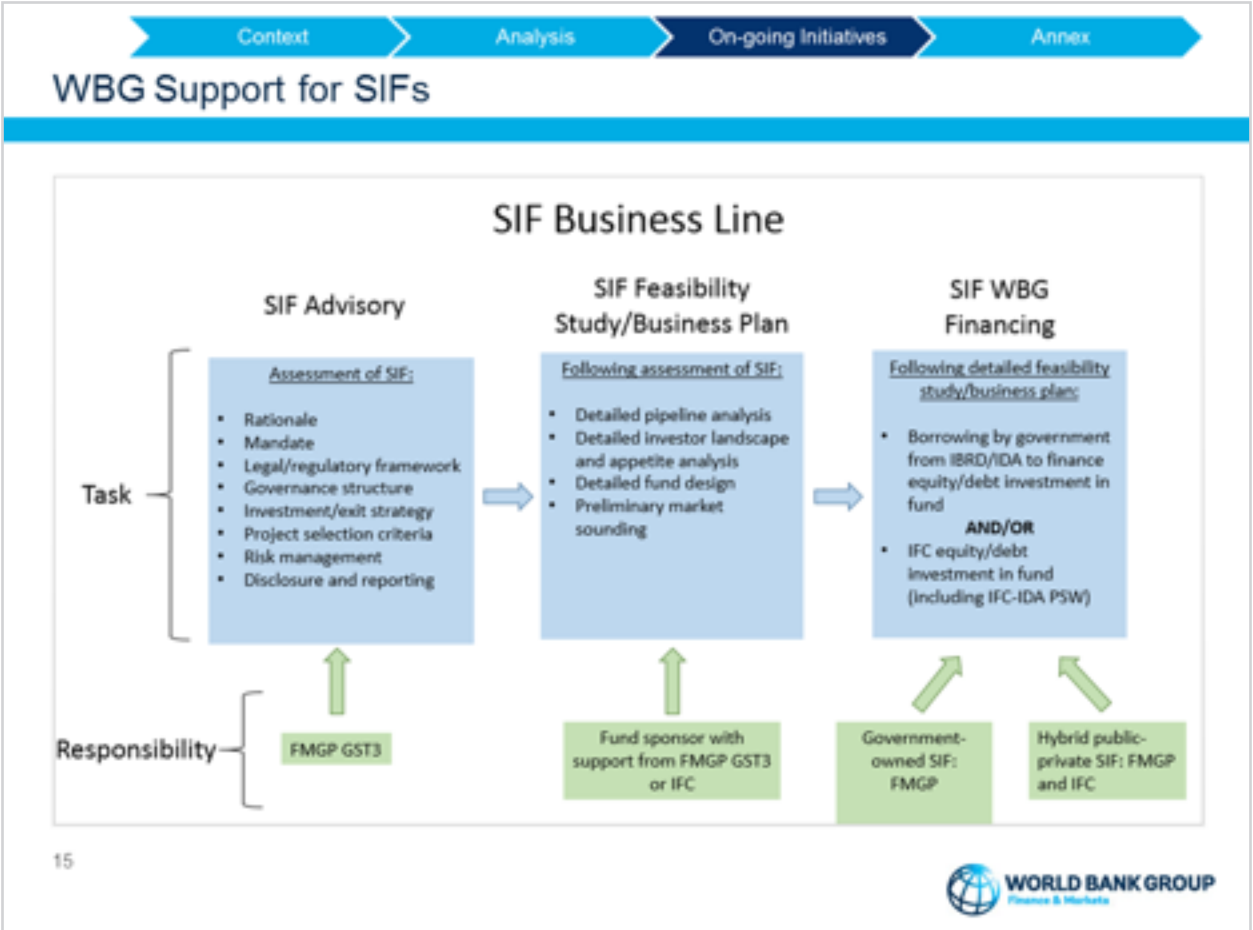

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WBG Support for SIFs
SIF Business Line
SIF Advisory
SIF Feasibility Study/Business Plan
SIF WBG Financing
Task
Assessment of SIF:
• Rationale
• Mandate
• Legal/regulatory framework
• Governance structure
• Investment/exit strategy
• Project selection criteria
• Risk management
• Disclosure and reporting
Following assessment of SIF:
• Detailed pipeline analysis
• Detailed investor landscape and appetite analysis
• Detailed fund design
• Preliminary market sounding
Following detailed feasibility study/business plan:
• Borrowing by government from IBRD/IDA to finance equity/debt investment in fund
AND/OR
• IFC equity/debt investment in fund (including IFC-IDA PSW)
Responsibility
FMGP GST3
Fund sponsor with support from FMGP GST3 or IFC
Government-owned SIF: FMGP
Hybrid public-private SIF: FMGP and IFC
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WBG SIF Engagements

Global/regional level (ongoing)

- Green Growth Investment Fund Africa
- Global Resilience Investment Fund

Country level (ongoing):

- Côte d'Ivoire SIF/PPP Venture Fund
- Ghana IIF
- Kenya SWF/SIF
- Senegal FONSIS

Country level (planned):

- Cameroon SIF
- China Green Investment Fund
- Gabon SIF
- India Green Growth Equity Fund

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STRATEGIC INVESTMENT FUNDS (SIFS)

OPPORTUNITIES AND CHALLENGES

OCTOBER 11, 2017

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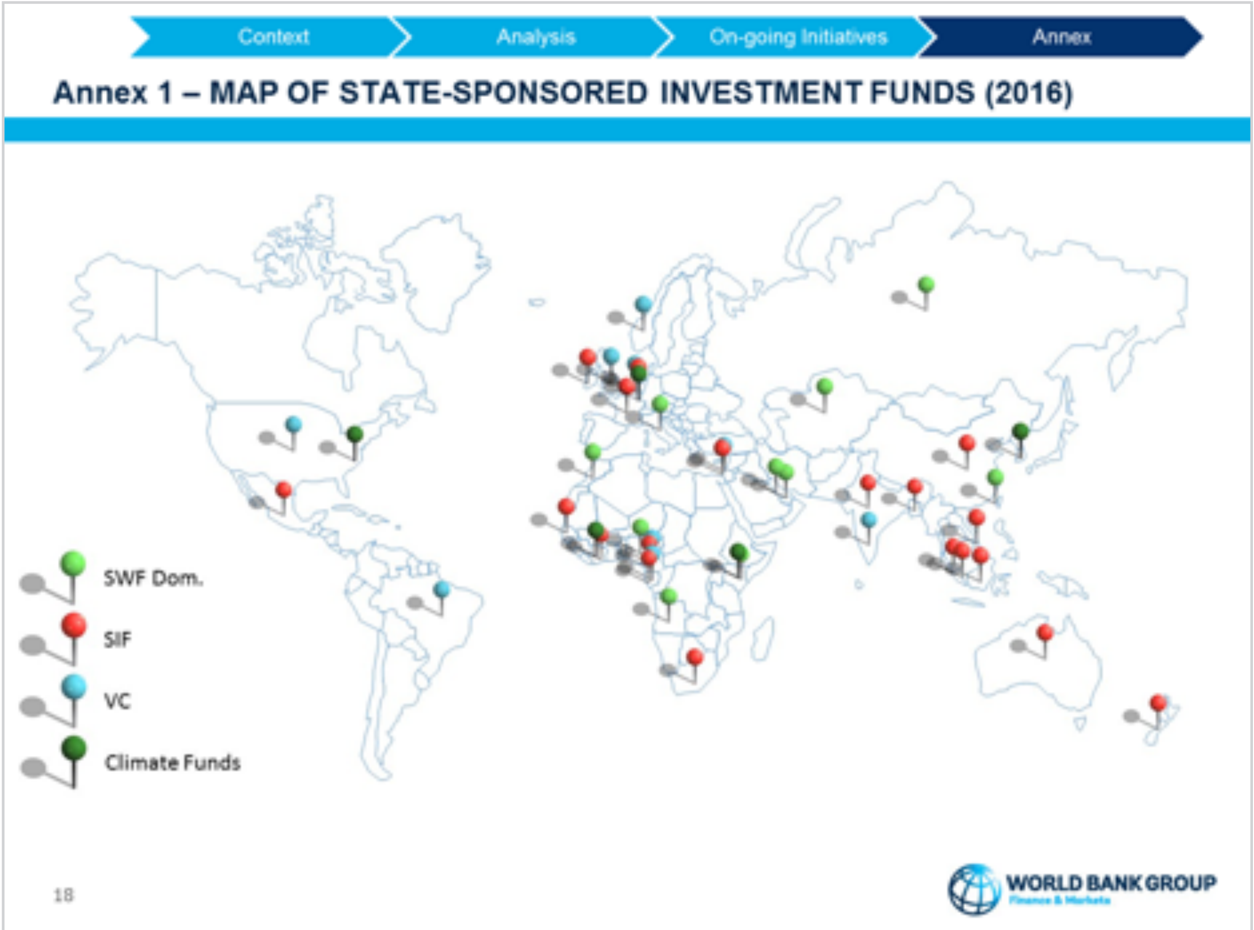
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Annex 1 – MAP OF STATE-SPONSORED INVESTMENT FUNDS (2016)
SWF Dom.
SIF
VC
Climate Funds
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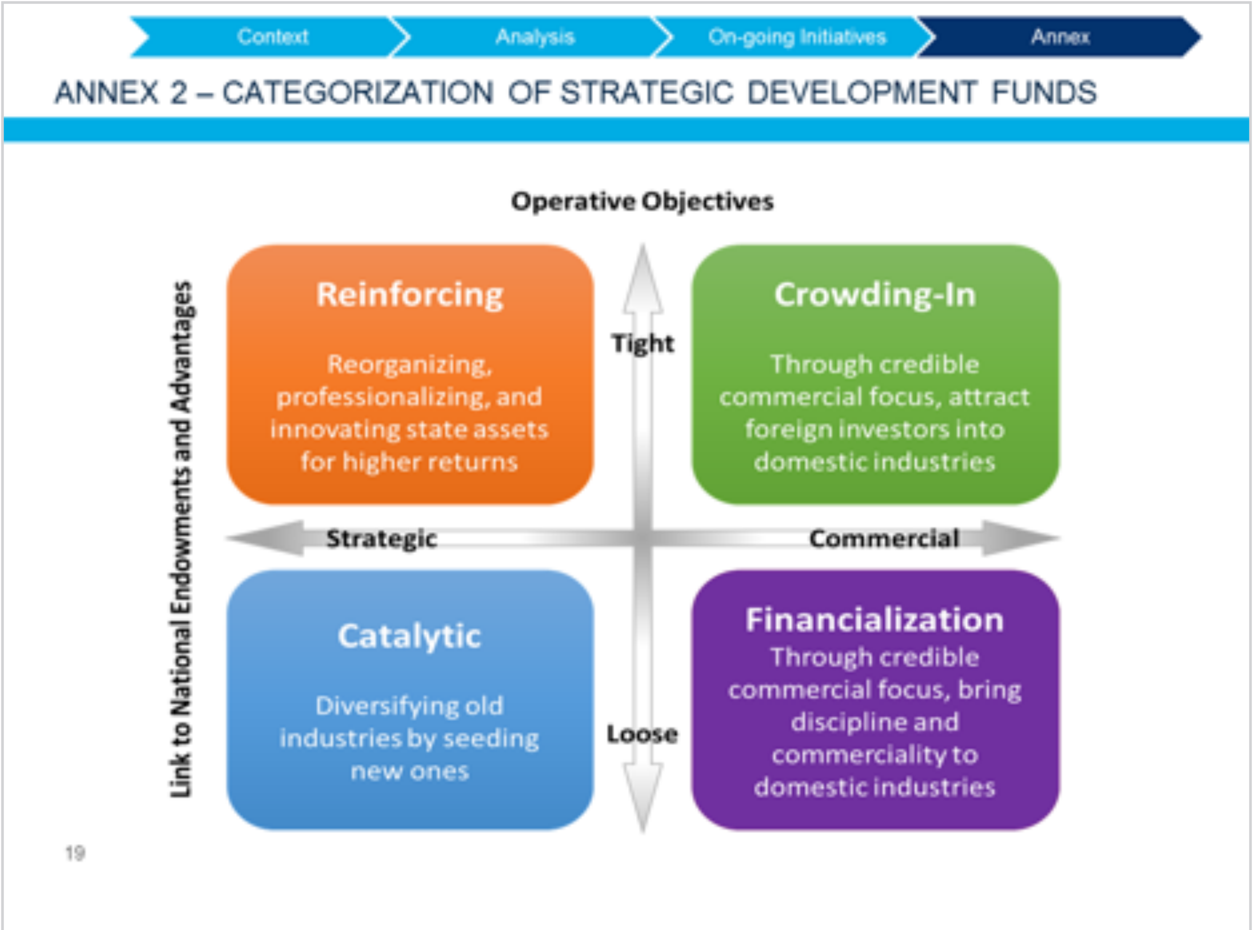
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ANNEX 2 – CATEGORIZATION OF STRATEGIC DEVELOPMENT FUNDS
Operative Objectives
Link to National Endowments and Advantages
Reinforcing
Reorganizing, professionalizing, and innovating state assets for higher returns
Crowding-In
Through credible commercial focus, attract foreign investors into domestic industries
Tight
Strategic
Commercial
Catalytic
Diversifying old industries by seeding new ones
Financialization
Through credible commercial focus, bring discipline and commerciality to domestic industries
Loose
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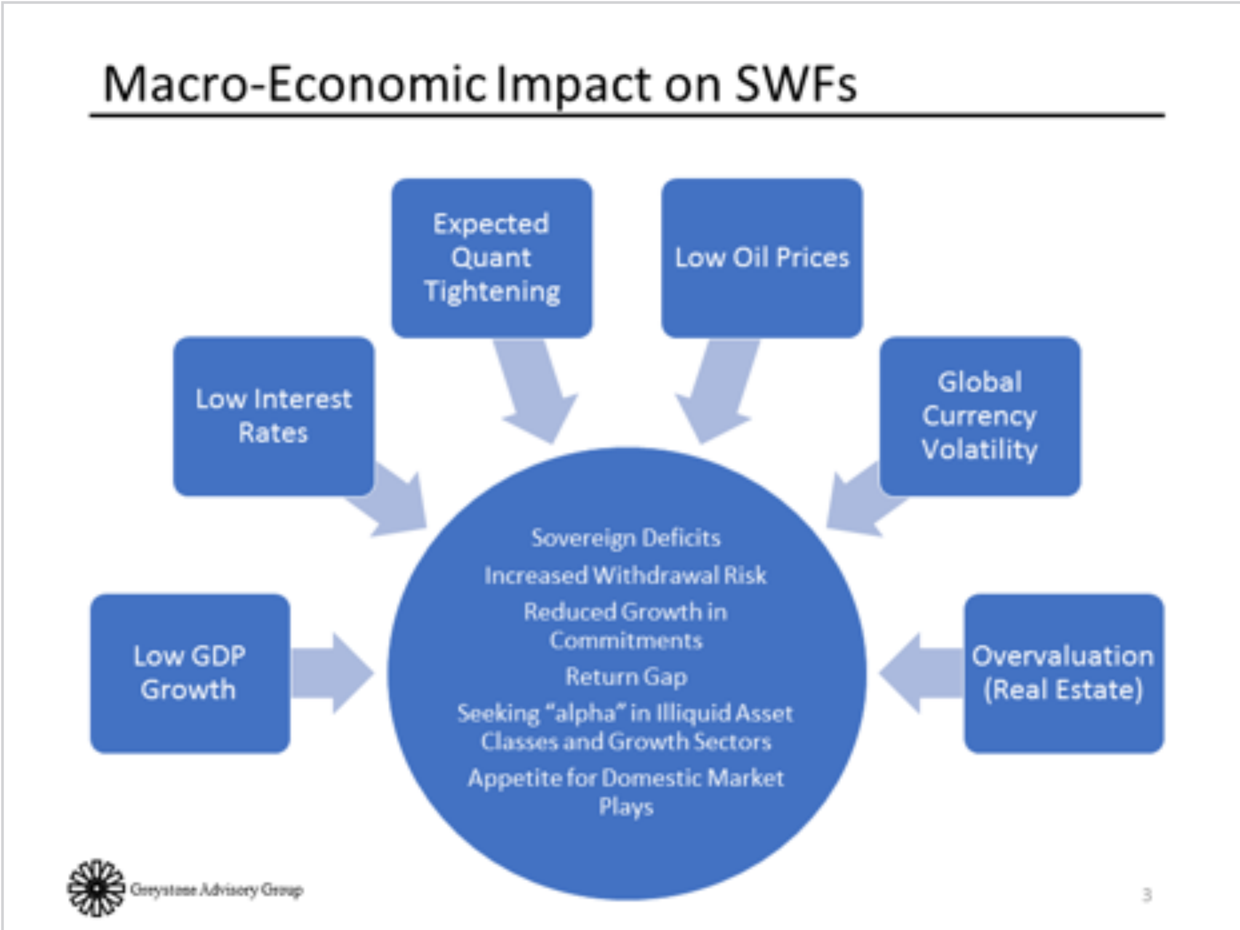
Slideshow of Mr. Omar Namoos & Mr. Kareem Nakshbendi

Executive Summary

- Low GDP growth and other factors have placed continued pressure on oil prices
- Threat of capital withdrawals to address deficits simultaneously drives the need for higher returns and greater liquidity
- Investors have fallen back on familiar sectors such as Real Estate and Infrastructure where valuations are high
- Demand for higher returns has fueled unprecedented explorations in alternative asset classes, including venture investing
- With this backdrop, an increased allocation toward direct investment in "safe haven" markets such as the US may be appropriate for some investors
- Today, we will describe a framework for identifying attractive sectors for direct investment by SWFs
- We will then offer a specific direct investment strategy for the purpose of encouraging discussion about the benefits and pitfalls of such an approach


Macro-Economic Impact on SWFs
Expected Quant Tightening
Low Oil Prices
Low Interest Rates
Global Currency Volatility
Sovereign Deficits
Increased Withdrawal Risk
Reduced Growth in Commitments
Return Gap
Seeking "alpha" in Illiquid Asset Classes and Growth Sectors
Appetite for Domestic Market Plays
Low GDP Growth
Overvaluation (Real Estate)
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3

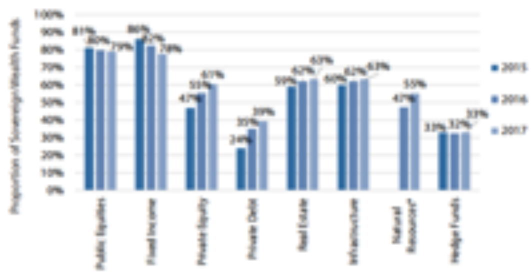
The Year in Review

Sectors of Interest

- Real Estate deals doubled to 48 ($7.1B in hotels) with QIA the most active
- Technology deals grew to 51 deals
- Markets offering security and growth (US, Germany, India)

Out of Rotation Sectors

- Commodities & Natural Resources
- Luxury Goods



Source: Preqin 2017

Sovereign Wealth Fund	Avg Deal Size *
Public Investment Fund (KSA)	$5,550M
Samruk-Kazyna Nat'l Welfare Fund JSC (Kazakhstan)	$2,403M
Qatar Investment Authority	$962M
China Investment Corporation	$944M
Australia Future Fund	$842M
Abu Dhabi Investment Authority	$682M
Kuwait Investment Authority	$682N

* 2016 data set

Deals in 2017

- CIC $13.7B in European logistics real estate company
- QIA ~$1.1B in Australian utility company
- CIC $4.5B in Chinese financial institution
- QIA $352.8M in U.S. real assets (office buildings)
- China: six deals (high-tech, healthcare, financials)
- Singapore: six deals (financials)

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Strategic Directives of SWFs Worldwide

Core

- Domestic economic development & employment
- Creation of sustainable value to stay competitive
- Enhance global reputational & influence

Strategic Shift

- Varies by country; independence and governance
- Greater internal asset management
- Redefinition of their relations with external managers
- Increase in investments in private markets (real estate & infrastructure)
- Global Macro Plays
    - "One Belt, One Road" (OBOR) initiative
    - Sovereign Venture Funds

Norway

- Ethical Council; stocks, bonds, real estate only

Australia

- Medical, Infrastructure, Education and ESG

Canada

- 6% AUM to hedge funds; ESG

China

- Real Estate, Technology (Didi Chuxing)

Malaysia

- Strategic investments in new sectors and geographies

Singapore

- FinTech; aspiring to become the global hub (Markit, Funding Circle)

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Key Strategic Priorities for SWFs in 2017 and Beyond

These priorities will continue to evolve in response to the changing geopolitical environment

- Shift from **investment strategy** to **business model** focus
- Refocus on **"safe haven"** markets for security and growth
- Doubling down on **real estate**, albeit at higher prices and lower returns
- Increasing appetite for venture and other early stage investments
  - The rise of **"sovereign venture funds"**
- Increased allocations to US public equity and public debt markets
  - Higher bond yields relative to other safe havens
  - Trump Administration considered to be "pro-business"
  - Exposure to US$ which is favored due to its liquidity and its performance compared to home and other currencies
- Increasing allocation to **home markets** in anticipation of continuing outflows

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Direct Investment Strategies for SWFs

Sectors

- High growth, large markets
- Pick the right niche within a sector!

Value-Creation Methodologies

- Complement domestic capabilities
- Expansion into home market
- Vertical integration into domestic supply chain and distribution network
- Sector consolidation

Stage of Investment

- Earlier stage investments in areas supported by the National Strategic Plan

Regulatory considerations

- National security concerns
- Anti-competitive consolidation
- Sensitive technologies
- Environmental or other contingent liabilities

> "We see sovereign industrial conglomerates being formed as investment funds establish **JVs with global manufacturing** giants and successfully develop economic partnerships, benefitting from the **knowledge transfer** and industrial development in sectors such as **aerospace**, **defense**, energy and technology".
>
> *Source: Preqin Special Report: Sovereign Wealth Funds, August 2017*

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Attractive Niche Plays in Industrials Sector

An analysis of niche plays that are appropriate for an investor must be done in consideration of their individual strengths

	Factory Auto-mation	Actuation & Control	Commodity Chemicals	Aero-structures	Auto Informatics
Large growth market	✓	✓	★	★	★
Top OEMs admired globally	✓	✗	✗	★	✓
Domestic customer/supplier linkages	✓	✓	★	★	✓
Liberalized regulatory regime	✓	✓	✓	★	★
Tier 2/Tier 3 supplier – limited tech risk	✗	★	✓	★	✓
Standards convergence	✗	✓	★	★	★
Low national security concerns	✓	★	★	✓	✓
Rational valuations	✓	✓	★	★	✓

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Global Integration Case Study - Aerostructures

A "string of pearls" consolidation strategy, combined with standing up a domestic greenfield operation

Capabilities
- Hard metals/Composites
- Polycarbonate

Products
- Tail section
- Flaps/slats/aelerons
- Fighter cockpits

Customers/Platforms
- Boeing 787, F15 E/F
- Airbus A350

Asset #1 – US Aerostructures

\+

Capabilities
- Precision machining

Products
- Pneumatic ejection systems
- Aircraft stores management

Customers/Platforms
- Dassault Mirage
- Eurofighter
- Airbus A400M
- Lockheed F-16
- Indian Air Force

Asset #2 – French Bomb Racks

\+

Capabilities
- Composites
- Aluminum
- Titanium/Inconel

Products
- Flaps/slats/aelerons
- Stringers
- Other aerostructures

Customers/Platforms
- Bombardier
- Boeing
- Airbus

Asset #3 – Italian Composite Structures

\+

Greenfield Mfg

=

Regional High Precision Machining Leader

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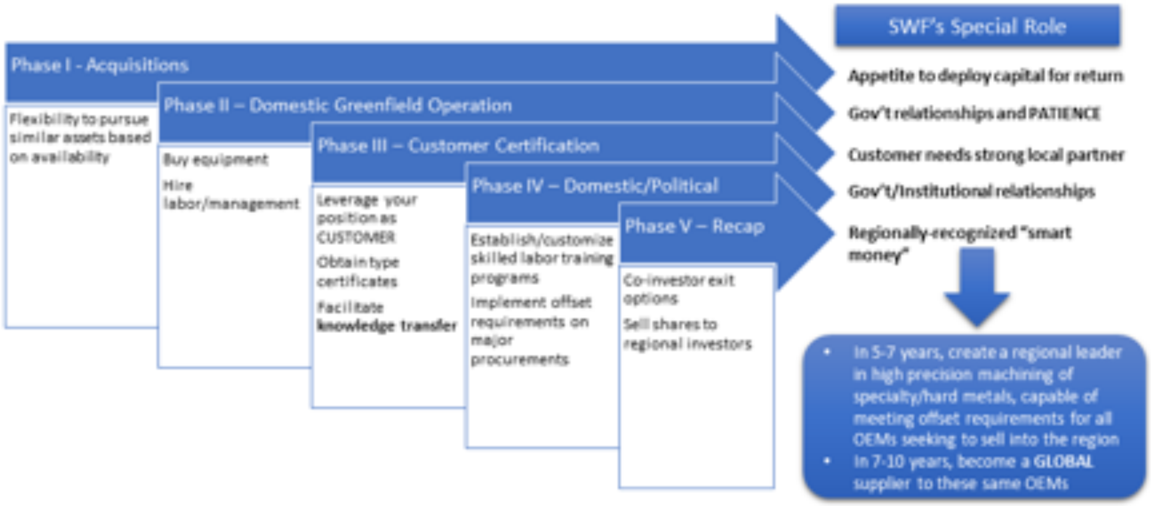
Value Creation Plan – SWF's Special Role

A key dependency to making this strategy successful is close coordination with a sub-set of targeted CUSTOMERS in advance



"We (sic) see a gap in the infrastructure market for high-risk equity provisions in greenfield projects and sovereign investors that find an investment approach to tackling this area will find strong demand"

Preqin, August 2017

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THANK YOU!

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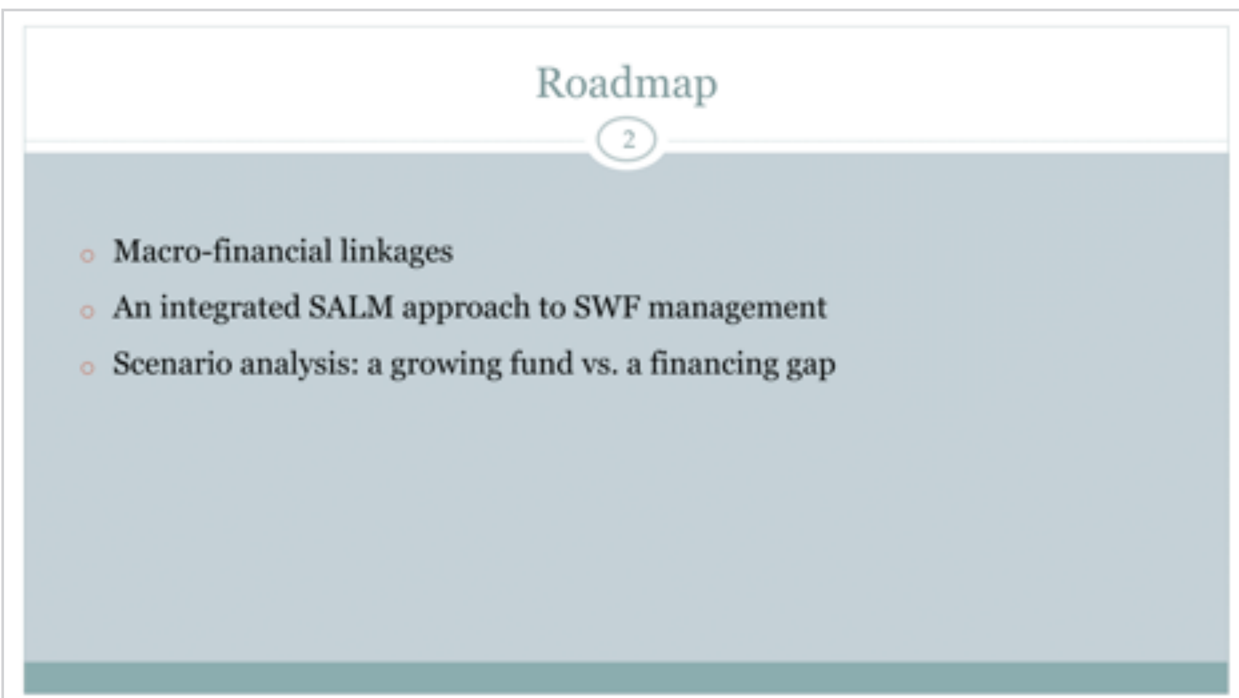
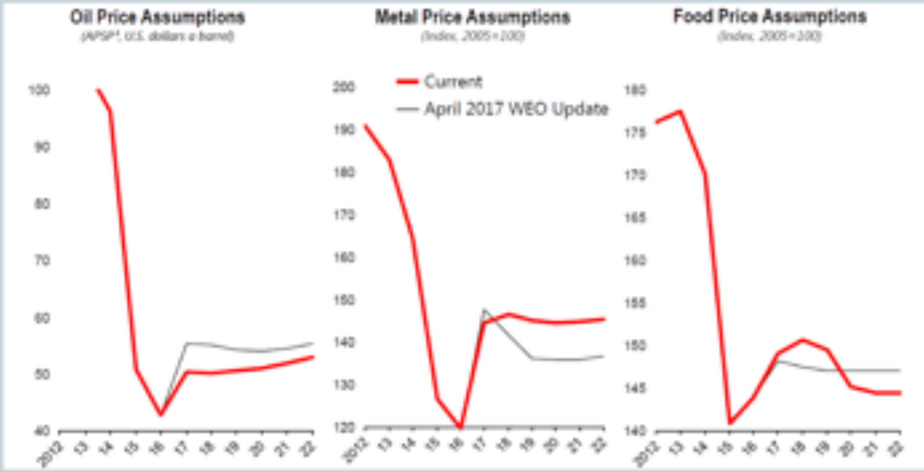
Slideshow of Dr. Abdullah AlHassan



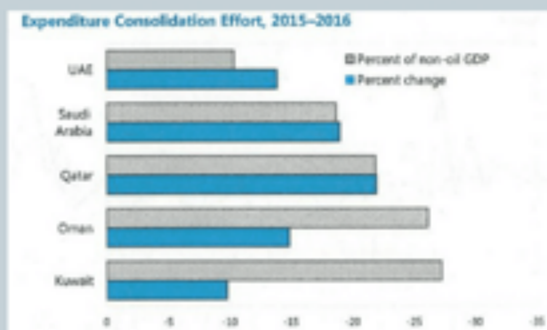
Why It Matters: Commodities Outlook Remain Subdued

3



Why It Matters: Deteriorated Fiscal Positions

4



Why It Matters: Trade-Offs

5

In a period of low commodity prices, SWFs are faced with critical decisions on asset accumulation/liquidation in the presence of sovereign debt and fiscal deficits.

6

Macro-Financial Linkages

Different Inflows/Outflows Rules

7

- **Chile:** a structural balance rule, with the objective of achieving a certain cyclical adjust fiscal surplus.
- **Norway:** "spending rule": the non-oil budget deficit should be on average 3 percent of the SWF over time.
- **Timor-Leste:** the estimated sustainable income.
- **No formal rules:** Qatar, Saudi Arabia, UAE.

So, What to target?

Investing Domestically or Abroad?

8

- **Domestically:** if there are developmental needs and sufficient absorptive capacity.
- **Abroad:** to mitigate risks from
  - Boom in aggregate domestic demand, inflationary pressures, and an appreciation of the real exchange
  - Pushing up domestic asset prices

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SWF Strategy and SALM

Liquidity in the Context of SALM

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- Striking the right balance between debt repayments and the building up of SWF assets (carry cost).

		Liquidity exposure of liabilities	
		Low	High
Access to liquid assets	Low	Monitor liquidity risk	Reduce liquidity risk
	High	Enhance sovereign assets' expected returns	Deleverage the balance sheet (use sovereign assets to reduce sovereign liabilities)

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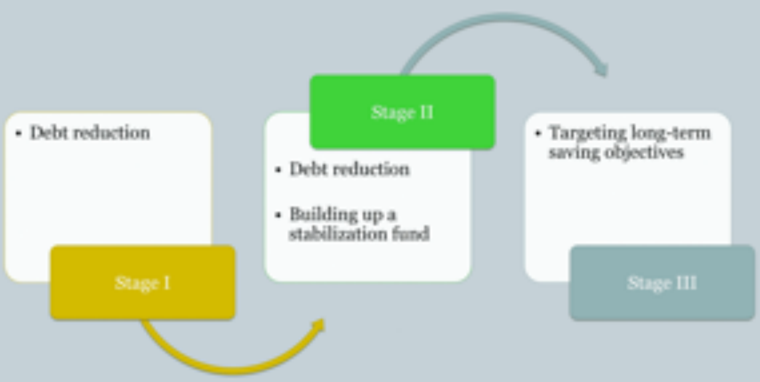
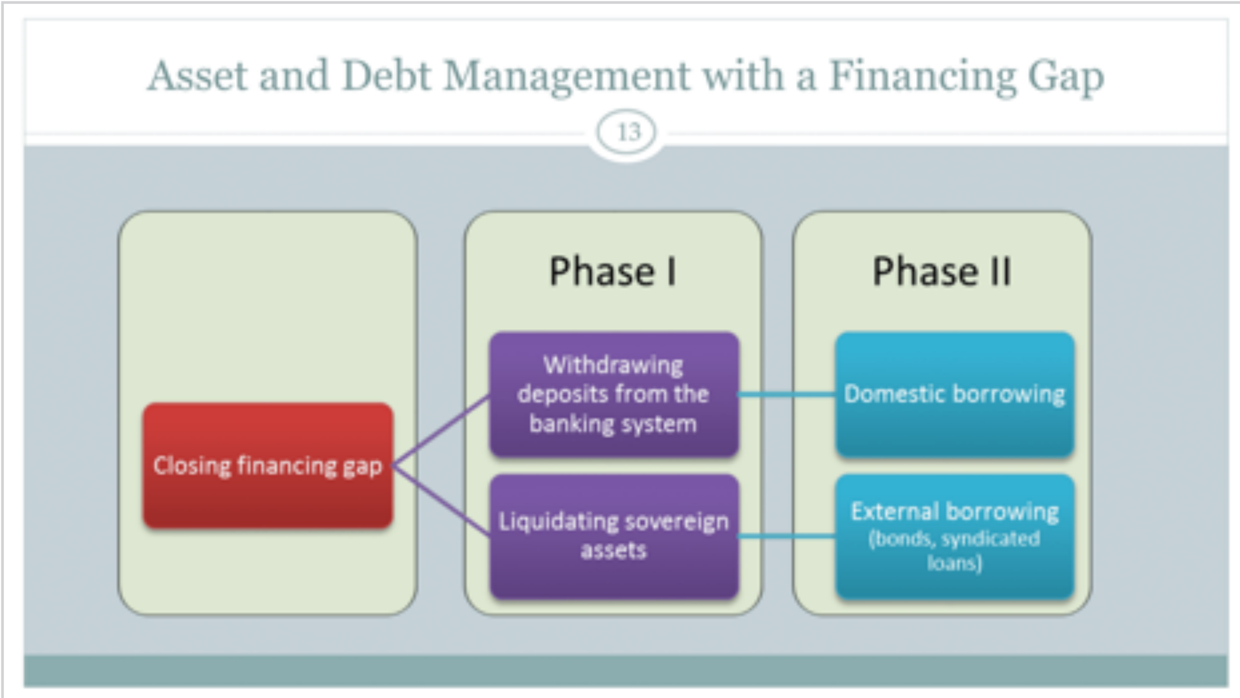
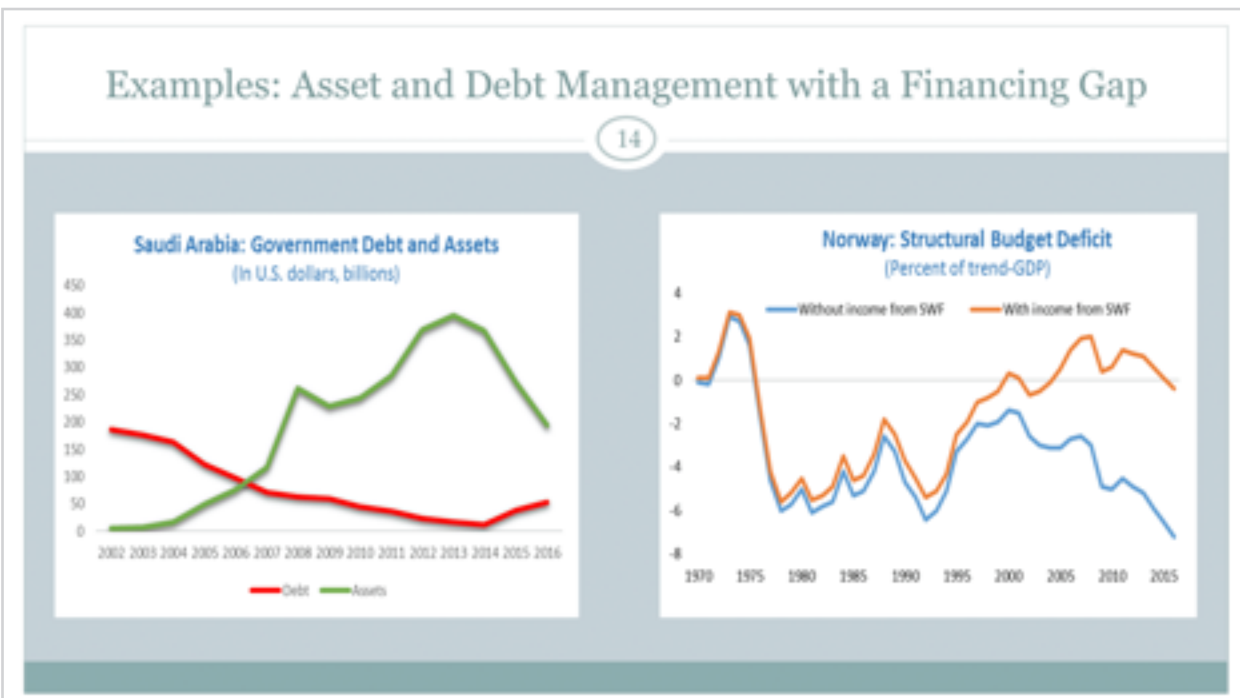
Scenario Analysis

Asset and Debt Management with a Growing Fund

12




Asset and Debt Management with a Financing Gap
13
Phase I
Phase II
Closing financing gap
Withdrawing deposits from the banking system
Liquidating sovereign assets
Domestic borrowing
External borrowing
(bonds, syndicated loans)


Examples: Asset and Debt Management with a Financing Gap
14
Saudi Arabia: Government Debt and Assets
(In U.S. dollars, billions)
Debt
Assets
Norway: Structural Budget Deficit
(Percent of trend-GDP)
Without income from SWF
With income from SWF

Takeaways

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- Assessing the relationship between bridging financing gaps and asset accumulation/liquidation, within a broader context of SALM.
- Appropriate assessments of liquidity risk on both the asset and liability sides of the sovereign balance sheet will play a central part.
- Continuing to develop SALM framework given financing needs over the short to medium-term.

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Slideshow of Dr. Michael Papaioannou & Mr. Bayasgalan Rentsendorj

New trends in the creation of new SWF

- ✓ Green Growth Investment Funds
- ✓ Infrastructure Funds
- ✓ Development Funds
- ✓ Strategic Investment Funds

Recent examples of newly established SWFs

Ithmar Capital, Morocco

Strategic Investment Fund of Senegal

Samruk Kazyna, Kazakhstan

National Investment and Infrastructure Fund of India

Philippine Investment Alliance for Infrastructure

Turkey Wealth Fund

Perceived goals

- ✓ Accelerate economic growth
- ✓ Sustainable development
- ✓ Develop national priority economic sectors
- ✓ Support Strategically important companies
- ✓ Optimize State Owned Enterprises

Common characteristics

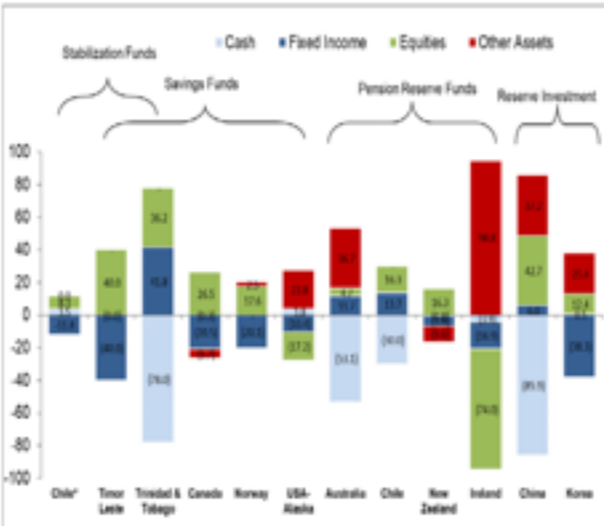
Aim to

- Co-investments
- Attract FDI
- Facilitate long-term investments
- Support Green Finance Facilities
- Unlock the potential of existing enterprises

Efficiency enhancement of existing structure

- State Owned Enterprise Transformation
- State Privatization

Key changes in SWF Strategic Asset Allocations in 2016



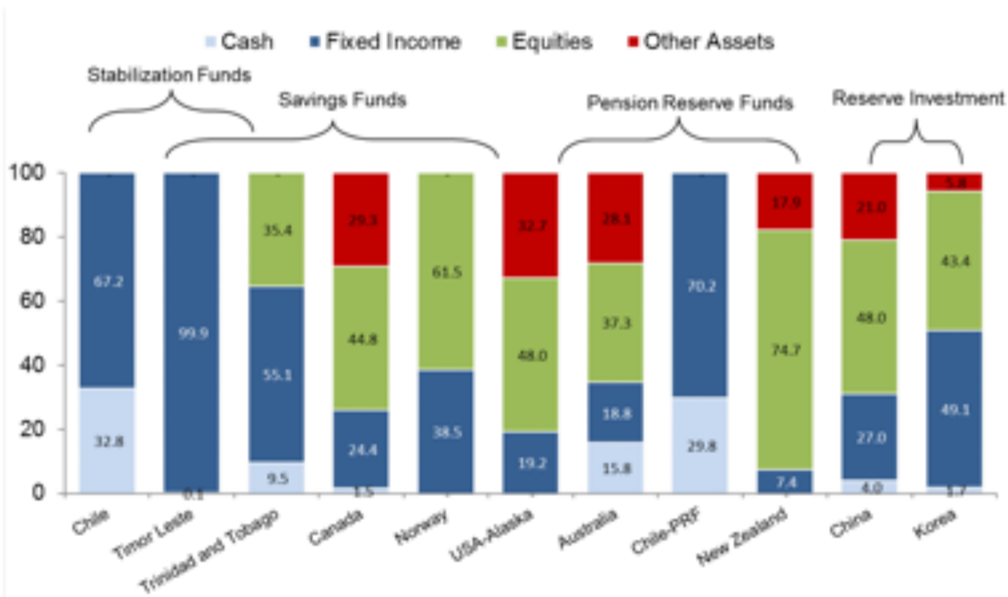
Broadly reduced asset classes

- Cash
- Fixed Income

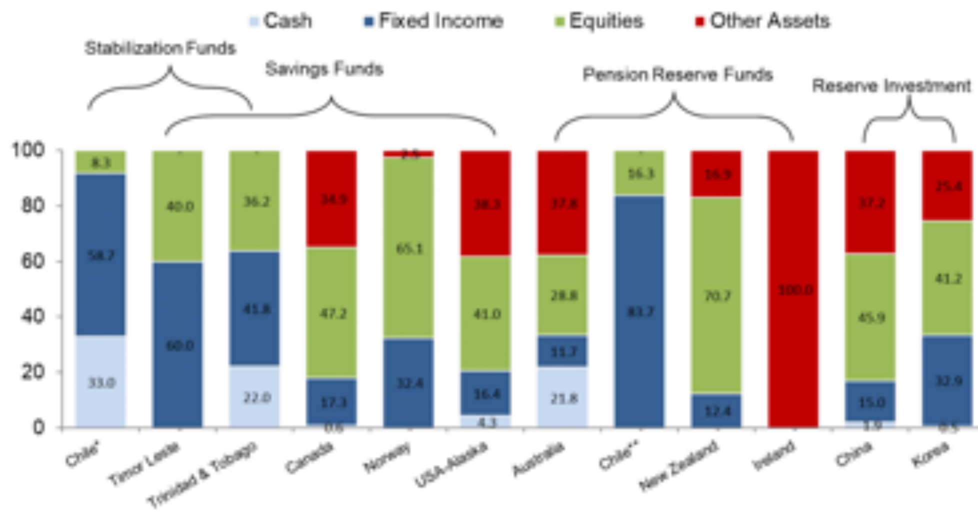
Broadly increased assets

- Public equity
- Private Equity
- Alternatives
  - Real estate
  - Infrastructures

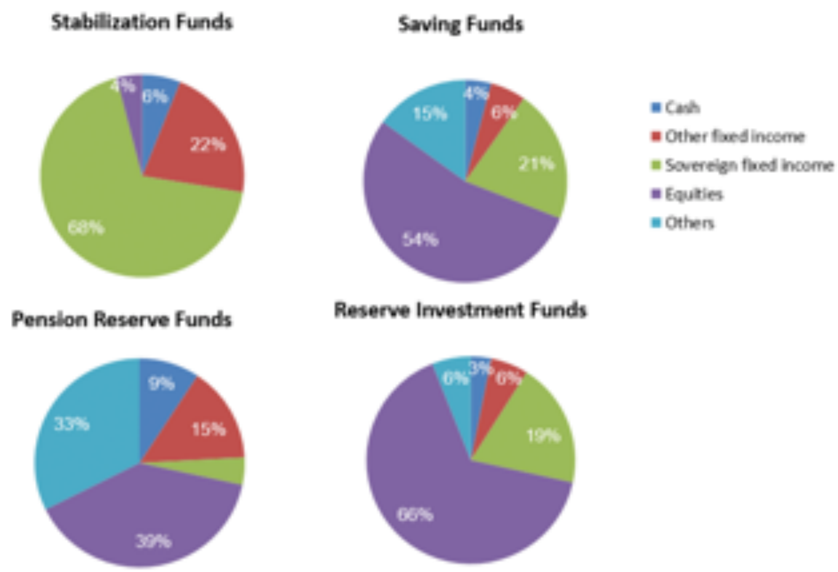
Strategic Asset Allocation, 2010

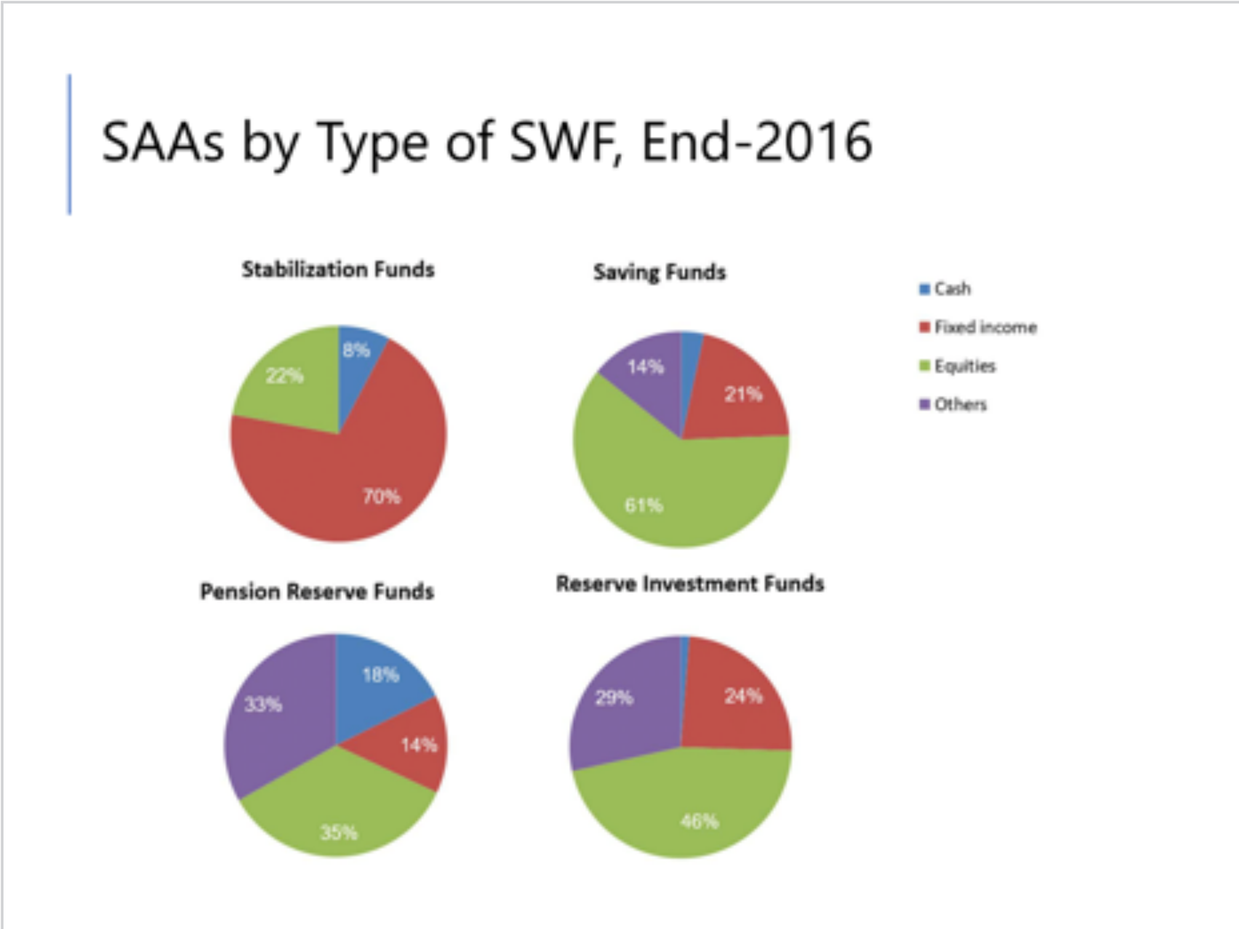


SWF Strategic Asset Allocation, 2016

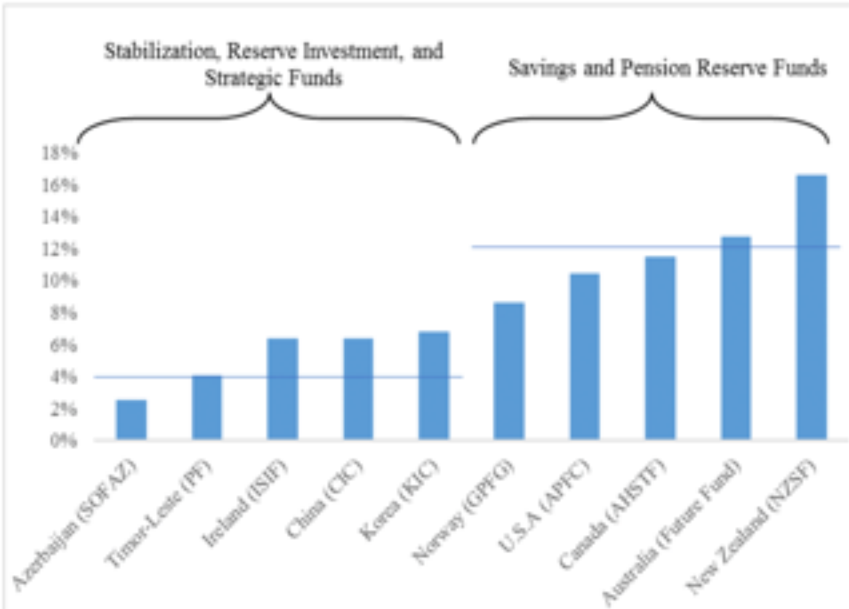


SAAs by Type of SWF, End-2010




SAAs by Type of SWF, End-2016
Stabilization Funds
8%
70%
22%
Saving Funds
21%
61%
14%
Pension Reserve Funds
18%
14%
35%
33%
Reserve Investment Funds
24%
46%
29%
Cash
Fixed income
Equities
Others

Annualized (5-Year) Returns of Selected SWF Portfolios



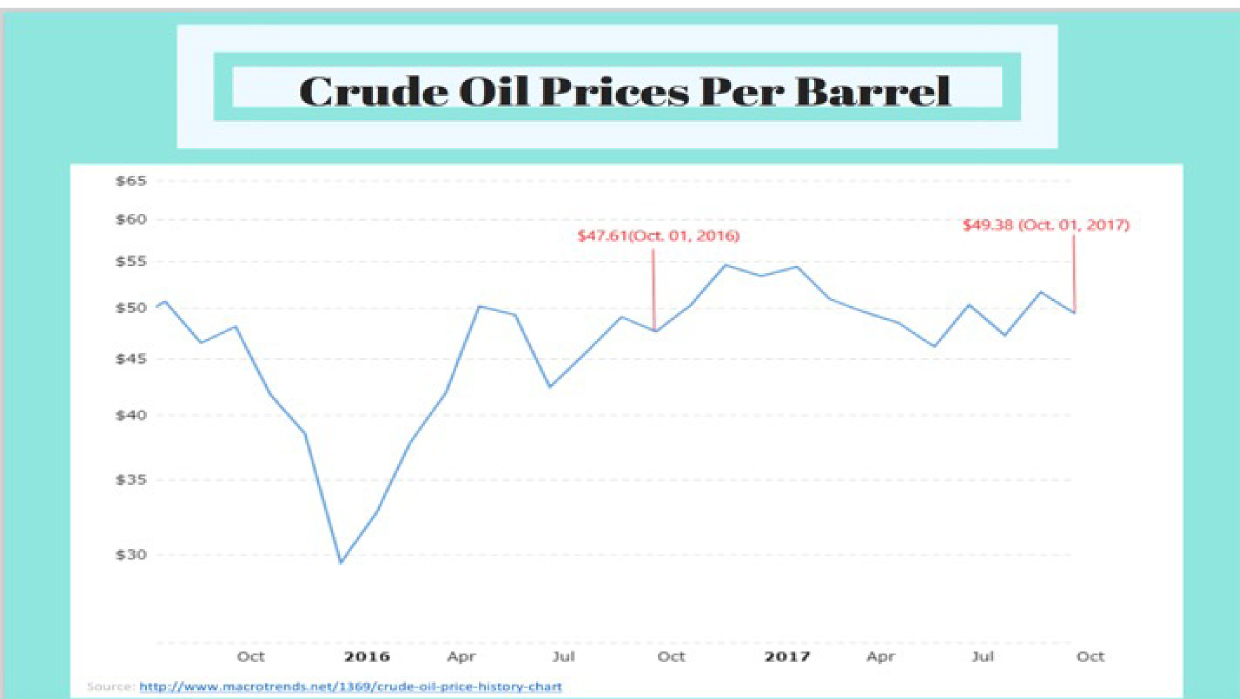
Example: New Zealand Super Fund Return: 17.96%

Final observations

- ✓ New trends in the creation of SWFs being observed
- ✓ Strategic Asset Allocation is expanding rapidly within existing SWFs
- ✓ Private equity and Alternative Asset Classes are becoming more attractive
- ✓ Reference portfolio strategy is broadly adopted
- ✓ Portfolio tilting strategy is being well received
- ✓ LDI strategy is getting more attraction

Q & A

Slideshow of Dr. Ghiyath Nakshbendi



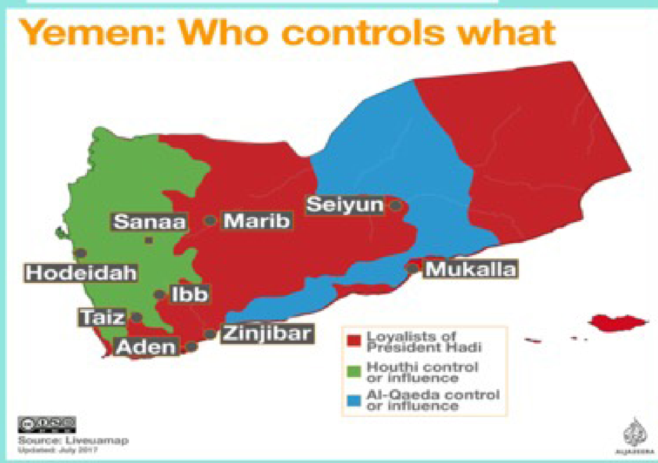
GCC Budget Deficits

	2016 Estimate	2017 Forecast
Saudi Arabia	-13.6% of GDP	-11.0% of GDP
UAE	-3.9% of GDP	-1.7% of GDP
Kuwait	-16.5% of GDP	-12.0% of GDP
Qatar	-7.8% of GDP	-4.6% of GDP
Bahrain	-13.9% of GDP	-14.7% of GDP
Oman	-18.9% of GDP	-11.2% of GDP

Cost of War- Syria

- $226 billion- (Losses of GDP, ‘11-’16)
- $100 to $200 billion- Reconstruction cost

Cost of War-Yemen



- US$19 billion. Cost from infrastructure damages and economic losses.
- US$15 billion. For rebuilding

Cost of War-Iraq

- Expected reconstruction cost of cities in Anbar province about $22 billion (UPI)
- Ability to rebuild highly dependent on oil prices.

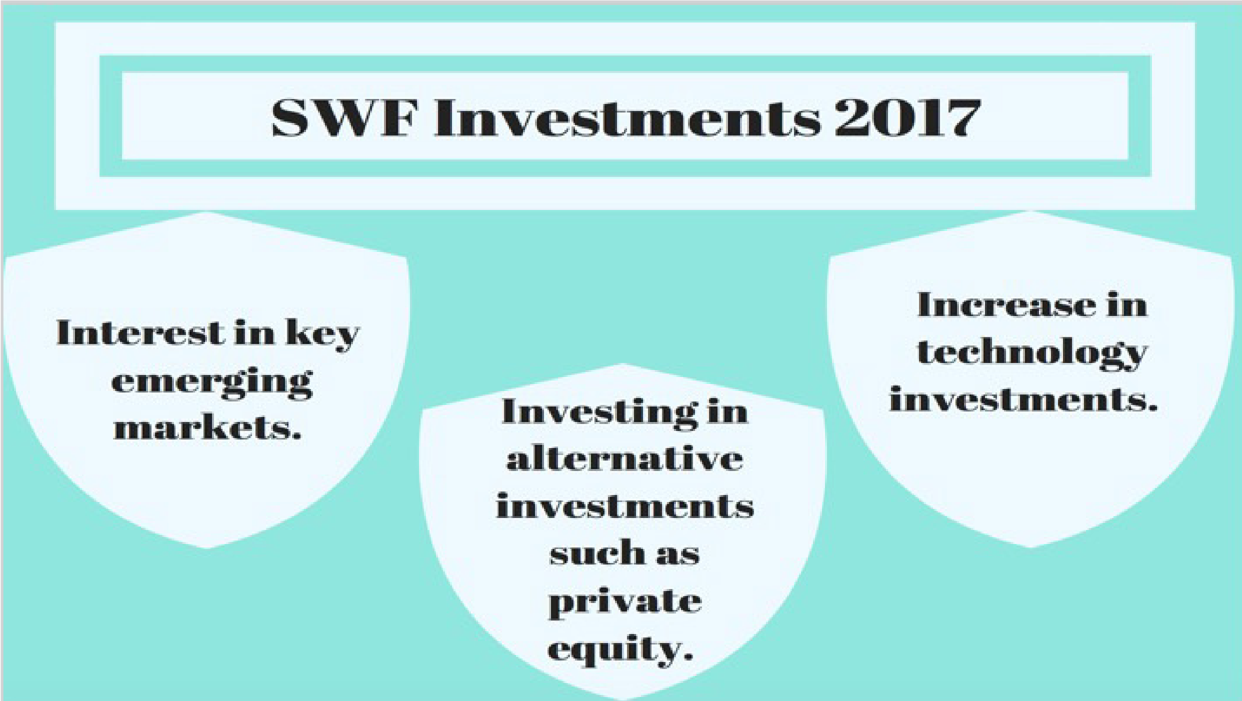
→ The oil industry accounts for 99% of government revenues. (UNDP Iraq)

SWF in the GCC Countries

	Assets (in Billions of USD)	% of World SWF Assets
UAE	1,306.5	18.04%
Saudi Arabia	697	9.63%
Kuwait	524	7.24%
Oman	24	0.33%
Qatar	320	4.42%
Bahrain	10.6	0.14%
	2,882.1	**39.80%**

https://www.swfinstitute.org/sovereign-wealth-fund-rankings/

Total SWF assets in the world (as of June 2017): $7,241 Billion


SWF Investments 2017
Interest in key emerging markets.
Investing in alternative investments such as private equity.
Increase in technology investments.


The Changing Roles and Rules of Sovereign Wealth Funds
Thank You
Our Fifth Sovereign Wealth Funds Conference is on Wednesday, October 24, 2018

Pictures from the Conference

Michel Noel

Parthiban David

Abderrahim Foukara

John Willoughby

John Willoughby

(L-R): Abderrahim Foukara, Omar Namoos, John Willoughby, Mohammed Barakat, and John Vogel

Rachel Donnelly

Bayasgalan Rentsendorj


Ghiyath Nakshbendi (left) and Kent Baker

Ereli (left) and Geoffrey G. Davis

John Willoughby, Mohammed Barakat, and John Vogel

(L-R): Abderrahim Foukara, Omar Namoos, John Willoughby, Mohammed Barakat, and John Vogel

Mohammed Barakat (left) and John Vogel

Abderrahim Foukara, Omar Namoos, John Willoughby, and Mohammed Barakat

Ghiyath Nakshbendi

Jan Brockmeijer (left) and Michael G. Papaioannou

Ghiyath Nakshbendi (left) and Abderrahim Foukara

Mario dos Santos Mateus (left) and Miguel Gago

Mohammed Barakat (left) and Ameen Estaiteyeh


Kareem Nakshbendi

Ghiyath Nakshbendi

Judith Spector

Michel Noel (left) and Zhamilia Klycheva


Abdullah AlHassan (left) and Celeste Lo Turco

(L-R): Michael G. Papaioannou, Abdullah AlHassan, Geoffrey G. Davis, Adam Ereli, and Timothy Timura


Michael G. Papaioannou

Patrick N. Theros

Jan Brockmeijer

Ameen Estaiteyeh

John Duke Anthony

(L-R): Rachel Donnelly, Robert Brockmeijer, Ghiyath Nakshbendi, Abdullah Al-Hammadi, and Bader Alkadi

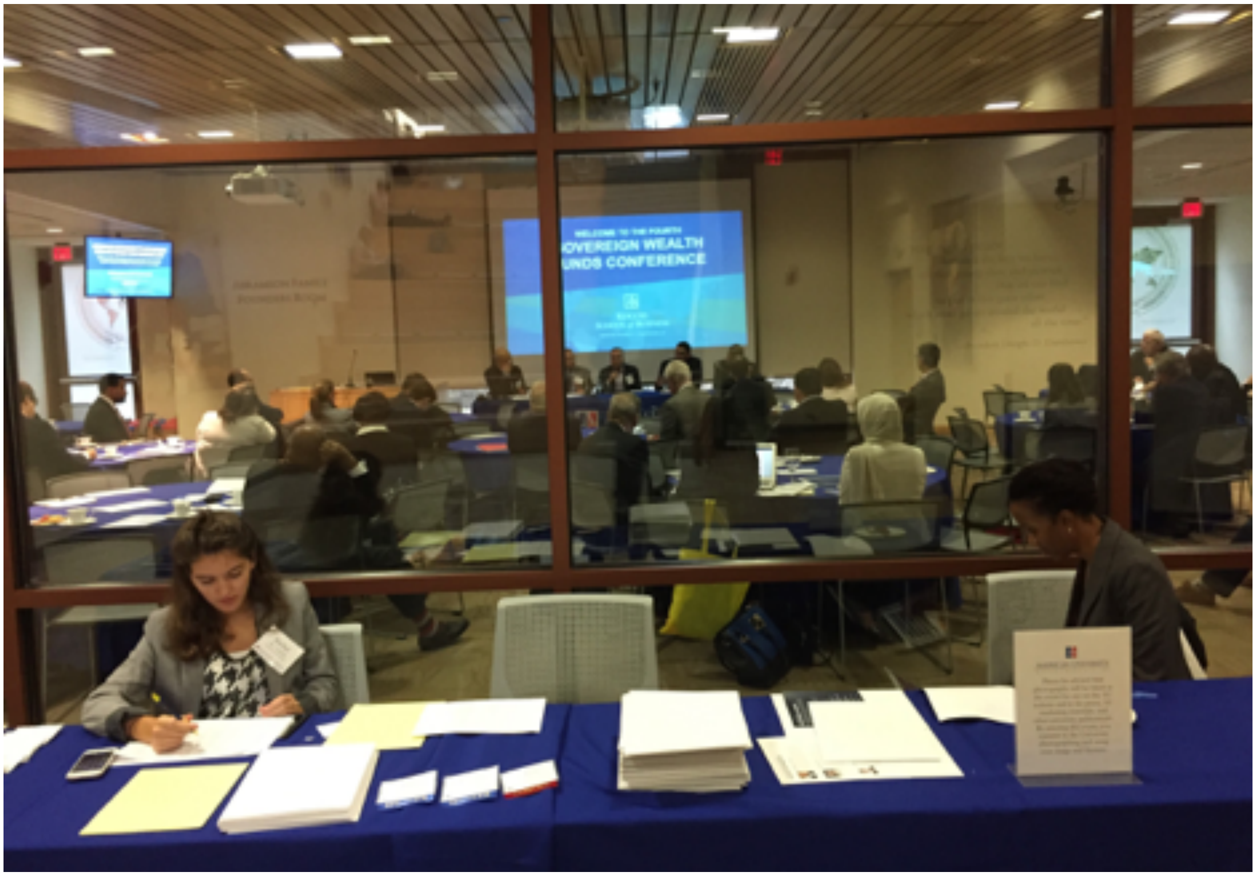
(L-R): Bader Alkadi, Ghiyath Nakshbendi, Rachel Donnelly, Robert Brockmeijer, Sherita Holt, and Hamad Alrushaid

John Duke Anthony (left) and Ghiyath Nakshbendi

(L-R): Rachel Donnelly, John Duke Anthony, Ghiyath Nakshbendi, Robert Brockmeijer, and Bader Alkadi

Ghiyath Nakshbendi

Ajay Adhikari



Rachel Donnelly (left) and Sherita Holt


Hung Tran

John Duke Anthony

John Duke Anthony

Hung Tran