Sovereign Wealth Funds:  
*The New White Knights, or Barbarians at the Gate?*

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*Goldman, Sachs & Co.*

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Agenda

- Overview of SWFs
- What Explains the Rise of SWFs?
- Recent Trends and Important SWF Investments
- Political and Legal Responses to SWF Activity
- Analysis of SWF Deal Structures
- Practical Advice for Working with SWFs
Who are the Sovereign Wealth Funds?

- Pools of capital raised and managed by governments
- SWFs are now seeking to diversify into foreign assets
- The first SWF was established in 1953 and of the 20 largest SWFs, 13 started before 2000
- These firms manage funds in excess of $3 trillion, with the investment arms of Kuwait, Saudi Arabia, Dubai, Abu Dhabi and Qatar combined holding approximately half of these assets
- Assets managed by SWFs are estimated to grow to over $5 trillion over the next 5 years and to more than $10 trillion within the next 10 years
Pools of Sovereign Wealth Around the Globe

- Alaska Permanent Fund (US) $40b
- Alberta Heritage Savings Trust Fund (Canada) $16b
- National Development Fund (Venezuela) $18b
- Economic and Social Stabilisation Fund (Chile) $10b
- National Oil Fund (Kazakhstan) $22b
- Revenue Regulation Fund (Algeria) $43b
- National Development Fund Global (Norway) $380b
- Stabilization Fund of the Russian Federation $157b
- National Stabilisation Fund (Taiwan) $15b
- Government Pension Fund - Global (Norway) $380b
- Korea Investment Corporation $20b
- China Investment Corporation $200b
- Temasek - $159b
- Brunei Investment Agency $30b
- Khazanah Fund (Malaysia) $26b
**Sovereign Wealth Funds in the Middle East**

**Libya**  
(GDP: $50b)  
- Lybian Investment Authority

**Kuwait**  
(GDP: $81b)  
- Kuwait Investment Authority ~$213b  
- Public Institute for Social Security

**Bahrain**  
(GDP: $13b)  
- Bahrain Mumtalakat Holding Company

**Qatar**  
(GDP: $43b)  
- Qatar foundation  
- Qatar Investment Authority ~$50b

**Ras Al Khaimah**  
(UAE)  
(GDP: $13b)  
- Ras Al Khaimah Investment Authority

**Saudi Arabia**  
(GDP: $310b)  
- Saudi Arabian Public Investment Fund  
- Public Pension Agency  
- Saudi Arabian Monetary Agency  
- Saudi Arabian General Investment Authority

**Oman**  
(GDP: $31b)  
- Omani General Reserve Fund - $2b

**Abu Dhabi**  
(UAE)  
(GDP: $130b)  
- Abu Dhabi Investment Authority ~$875b  
- Abu Dhabi Investment council  
- Mubadala Development Company ~$10b  
- International Petroleum Investment Company

**Dubai**  
(UAE)  
(GDP: $43b)  
- Dubai Holding  
  - DIC/GSEF ~$12bn  
  - Dubai Group  
  - Dubai Financial  
  - Tatweer  
  - TECOM  
  - Dubai Properties  
- Dubai World  
  - Istithmar ~$8b  
  - DP World  
  - Nakheel  
  - Landmark  
- Emirates Investment Authority  
- Investment Corporation of Dubai
Sovereign Wealth Fund Assets

SWFs manage approximately **US$3 trillion** in assets, including:

- Abu Dhabi: $500-$875B
- Saudi Arabia: $500B (rumored)
- Singapore: $489B
- Norway: $380B
- Kuwait: $213B
- China: $200B
- Russia: $157B
- Qatar: $50-$60B
- Dubai: ~$20B
- Oman: ~$8B
Relative Size of SWF Holdings

SWF holdings as a percentage of total global assets under management:

- Pension Funds: 31%
- Mutual funds: 27%
- Insurance companies: 27%
- Official reserves: 8%
- Sovereign-wealth funds: 4%
- Hedge funds: 3%
- Private equity: 1%
What Explains the Emergence of SWFs?

- Why were SWFs created?
  - Economic stabilization and diversification
  - Higher investment returns

- Why are they so big today?
  - Increased oil/gas prices
  - Excess dollar-denominated foreign exchange reserves

- Why so many deals?
  - Credit crunch/massive write-downs at major financial institutions
  - Weak dollar

- What are their goals?
  - Investing oil and trade surpluses for future generations
  - Private investment vehicles of sovereign leaders
  - Economic and strategic influence
## Recent SWF Investments

<table>
<thead>
<tr>
<th>Date</th>
<th>Target Company</th>
<th>Sovereign Wealth Fund(s)</th>
<th>Investment Size (% Stake in Target)</th>
</tr>
</thead>
<tbody>
<tr>
<td>5/22/07</td>
<td>Blackstone</td>
<td>China Investment Corporation (CIC)</td>
<td>$3 B (9.7%)</td>
</tr>
<tr>
<td>7/23/07</td>
<td>Barclays</td>
<td>Temasek and China Development Bank</td>
<td>Temasek: $1.9B (2.1%); CDB: $3.0B (3.1%)</td>
</tr>
<tr>
<td>8/9/07</td>
<td>Barneys New York</td>
<td>Istithmar (Dubai)</td>
<td>$942.3M (100%)</td>
</tr>
<tr>
<td>8/21/07</td>
<td>MGM Mirage</td>
<td>Dubai World</td>
<td>$1.2B (9.5%) stake in MGM Mirage; $2.7 B (50%) in CityCenter project</td>
</tr>
<tr>
<td>9/20/07</td>
<td>Carlyle Group</td>
<td>Mubadala (Abu Dhabi)</td>
<td>$1.35B (7.5%)</td>
</tr>
<tr>
<td>10/20/07</td>
<td>NASDAQ/London Stock Exchange</td>
<td>Borse Dubai</td>
<td>28% stake in LSE and 19.99% stake in NASDAQ (with additional 8.33% stake held in trust for Borse Dubai)</td>
</tr>
<tr>
<td>10/20/07</td>
<td>London Stock Exchange/OMX</td>
<td>Qatar (QIA)</td>
<td>14.9% in LSE; 9.98% in OMX</td>
</tr>
<tr>
<td>10/22/07</td>
<td>Bear Stearns</td>
<td>Citic Securities (China)</td>
<td>~$1B (6%)</td>
</tr>
<tr>
<td>11/1/07</td>
<td>Almatis GmbH</td>
<td>Dubai International Capital (DIC)</td>
<td>100% (amount not disclosed)</td>
</tr>
<tr>
<td>11/5/07</td>
<td>Alliance Medical Ltd.</td>
<td>Dubai International Capital (DIC)</td>
<td>$1.2B (100%)</td>
</tr>
<tr>
<td>11/7/07</td>
<td>Apollo</td>
<td>Abu Dhabi Investment Authority (ADIA)</td>
<td>9% (amount not disclosed)</td>
</tr>
<tr>
<td>11/17/07</td>
<td>AMD</td>
<td>Mubadala (Abu Dhabi)</td>
<td>$622M (8.1%)</td>
</tr>
<tr>
<td>11/27/07</td>
<td>Sony</td>
<td>Dubai International Capital (DIC)</td>
<td>Not disclosed, but less than 5% stake</td>
</tr>
<tr>
<td>11/27/07</td>
<td>Citigroup</td>
<td>Abu Dhabi Investment Authority (ADIA)</td>
<td>$7.5B (4.9% stake)</td>
</tr>
<tr>
<td>12/10/07</td>
<td>UBS</td>
<td>The Government of Singapore Investment Corp (GIC); an unidentified Middle Eastern investor</td>
<td>$11.5B (GIC: 9%; Other Investor: 1.6%)</td>
</tr>
<tr>
<td>12/19/07</td>
<td>Morgan Stanley</td>
<td>CIC (China)</td>
<td>~$5B (9.9%)</td>
</tr>
<tr>
<td>12/24/07</td>
<td>Merrill Lynch</td>
<td>Temasek</td>
<td>$4.4B (9.4%)</td>
</tr>
<tr>
<td>1/15/08</td>
<td>Merrill Lynch</td>
<td>Korean Investment Corp. (South Korea), KIA (Kuwait), Mizuho Corporate Bank (Japan), et al.</td>
<td>$6.6B (14.5%)</td>
</tr>
<tr>
<td>1/15/08</td>
<td>Citigroup</td>
<td>GIC (Singapore), KIA (Kuwait), Prince Alwaleed bin Talal (Saudi Arabia), et al.</td>
<td>$12.5B (9.3%)</td>
</tr>
</tbody>
</table>
Recent SWF Investments
Political and Legal Considerations

• Transparency / SWF Code of Conduct

• Control Over Strategic Assets

• Political Impact in Global Economy
SWF Transparency & Investment Strategy

Source: breakingviews.com SWF Risk Index
U.S. Political Responses to SWFs

• Early Skepticism and Protectionism
  – CNOOC
  – Dubai Ports World

• No Objection to Recent Investments in the Global Financial Institutions Sector

• Potential Congressional Intervention?
Key Characteristics of Recent Investments

Key Characteristics of the Deal Flow
Common characteristics of all recent transactions:

- Friendly
- Minority stakes
- No board seats

Breakdown by Geography

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rest of World</td>
<td>28%</td>
</tr>
<tr>
<td>North America</td>
<td>47%</td>
</tr>
<tr>
<td>Europe</td>
<td>25%</td>
</tr>
</tbody>
</table>

Breakdown by Sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financials</td>
<td>53%</td>
</tr>
<tr>
<td>Energy and Commodities</td>
<td>12%</td>
</tr>
<tr>
<td>Telco</td>
<td>16%</td>
</tr>
<tr>
<td>Consumer</td>
<td>19%</td>
</tr>
</tbody>
</table>

Number of Transactions by Size

<table>
<thead>
<tr>
<th>Size</th>
<th>Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$1bn</td>
<td>11</td>
</tr>
<tr>
<td>$1bn to $2bn</td>
<td>13</td>
</tr>
<tr>
<td>$2bn to $10bn</td>
<td>7</td>
</tr>
<tr>
<td>&gt;$10bn</td>
<td>2</td>
</tr>
</tbody>
</table>

1 For deals over $200m in the last two years.
Analysis of SWF Deal Structures

• Types of Investments:
  – Passive investments (PIPEs)
  – Joint Ventures
  – Pre-IPO Investments in Private Equity Funds
  – Buyouts/Direct Investments

• Types of Securities:
  – Convertible
  – Common shares
  – Equity Units in Private Equity Funds

• Governance Arrangements:
  – Board representation
  – Voting Rights
  – Standstills/Lockups
• SWF Investors: GIC (Singapore), KIA (Kuwait), Saudi Prince, et al.

• Investment size: $12.5B (9.3%)

• Type of security: Convertible preferred with 7% quarterly dividend, 20% conversion premium

• Governance:
  – No board seats and no special governance rights
  – Lockup: no sale, transfer or hedging for 6 months
  – Restrictions on acting in concert and caps for each investor based on banking and foreign ownership restrictions
Bear Stearns

- SWF Investor: Citic Securities (China)
- Investment size: ~$1B (6%)
- Securities: 40-year convertible trust preferred securities with potential to increase to 9.9% stake
- Bear Stearns also invested ~$1B in Citic through six-year convertible debt and five-year options
- Creates new strategic Asian joint-venture combining the firms’ Asia offices
Carlyle Group LP

- SWF Investor: Mubadala (Abu Dhabi)
- Investment Size: $1.35B (7.5%)
- Type of security: nonvoting shares
- Mubadala to invest $500M in new Carlyle fund
- IPO Valuation Protection
Barneys New York

- SWF Investor: Istithmar (Dubai)

- Investment Size: $942.3M (100% buyout)

- Purchased from Jones Apparel Group in auction (outbid Japan’s Fast Retailing)
Practical Advice for Dealing with SWFs

- Negotiating with a SWF
- Representing a SWF
- Public relations / Navigating CFIUS
- Strategic alliances – new geographic markets