A VIEW FROM DUBAI: SOVEREIGN WEALTH AND PRIVATE EQUITY FUNDS INCREASINGLY WORKING TOGETHER

Posted on 19/10/2008

Category: Opinions

High profile investments by sovereign wealth funds has generated discussion and courted controversy, but also significantly raised hopes within the global investment community, says Peter Martyr, Chief Executive of Norton Rose.

Segíºn Peter Martyr, Director Ejecutivo de Norton Rose, aumenta la conciencia de que las estrategias de inversión del Tesoro Píºblico están más cerca de los fondos de inversión privados y de las instituciones financieras de lo que se había pensado. Un estudio reciente llevado a cabo por su firma indica la preocupación por la transparencia del Tesoro Píºblico; ellos, sin embargo, buscan las mismas formas de inversión y esperan los mismos niveles de rendimiento, más semejantes a las entidades de inversión tradicionales.

The liquidity crisis in the global financial community has been a constituent part in pushing sovereign wealth funds (SWFs) into the public spotlight. Commentators have subsequently expressed concerns about their transparency, their investment strategies, their size and whether the investments made by SWFs are affected by political objectives. At the same time, concerns have also been raised about the potential for protectionist restrictions being imposed on SWF investments.

The International Monetary Fund (IMF) and International Financial Services London estimate that SWFs now manage assets worth as much as $3.3 trillion (€2.3tn) and this figure could rise to $10tn (€7tn) by 2015.

With their perceived growing influence, and capital, concerns have inevitably focused on how SWFs deploy their tremendous wealth, but also on the management and decision-making processes both within and behind their operations. Indeed, a number of financial regulators have suggested remedial action to combat what they perceive as an apparent lack of transparency.

Complimentary investors

Against this background, our firm together with the Emerging Markets Private Equity Association (EMPEA) recently conducted a survey to canvass opinion from SWFs, but also from the private equity industry, financial institutions and corporates with which they are increasingly interacting.

The survey showed that SWFs are generally regarded as long term, commercial investors who are becoming increasingly important sources of finance for established and emerging markets alike.

Among the key findings were that while non-SWF respondents were divided as to whether SWFs are primarily driven by returns, the majority of SWFs themselves regard the 'highest economic return' as their most important investment criterion.

A clear majority of all respondents perceive SWFs as long term, largely passive investors and that they would increasingly co-invest alongside private equity firms.

Their role is generally seen as complimentary rather than competitive. Indeed, the majority of SWFs believe that they have a similar risk profile to private equity companies, and that they may indeed share common investment goals and objectives.

SWF respondents stated that they were expecting to invest extensively across the globe in the next 12 months, and especially in North America and in emerging markets. The expected investment emphasis of most, the survey reveals, is towards three key sectors: financial services, infrastructure and energy. Nonetheless half of all respondents stated that the impact of the 'credit crunch' would however be the most important factor in determining the number of deals executed over the coming year.

As to the operation of SWFs, more than 80% of non-SWF respondents believe that there is a need for them to disclose more information, though a majority thought this should be through voluntary processes rather than under obligation. Although SWF respondents indicated they would not necessarily be deterred from investing by the imposition of disclosure requirements.

There would seem to be a perception however that the hand of the SWFs may in any event be forced. A majority of all respondents said that they believed that a lack of common transparency rules would result in governments restricting SWF investments.

Such questions and concerns as highlighted by the research, particularly as regards transparency and disclosure, will need to be confronted sooner rather than later, but the deeper global credit crunch was seen as the most influential factor ultimately facing SWFs. It waits to be seen whether the events of recent weeks across the global financial sector has helped drive sentiment closer towards them, or further away.

With the amount of investment monies at their disposal, SWFs are in any event emerging as increasingly important investors across the globe. The survey showed that the private equity industry, financial institutions and corporates, despite some shared concerns, generally welcome them. And that they are recognised as commercial, not political, organisations which have an active and influential role to play in the modern investment community.

Peter Martyr is Chief Executive of London-based Norton Rose, he can be reached via peter.martyr@nortonrose.com. The full survey results and accompanying commentary can be viewed at www.nortonrose.com