

**From PLI's Online Program**

***Sovereign Wealth Funds 2008: The New White Knights,  
or Barbarians at the Gate?***

**#17046**



# **Sovereign Wealth Funds:**

*The New White Knights, or Barbarians at the Gate?*

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# Agenda

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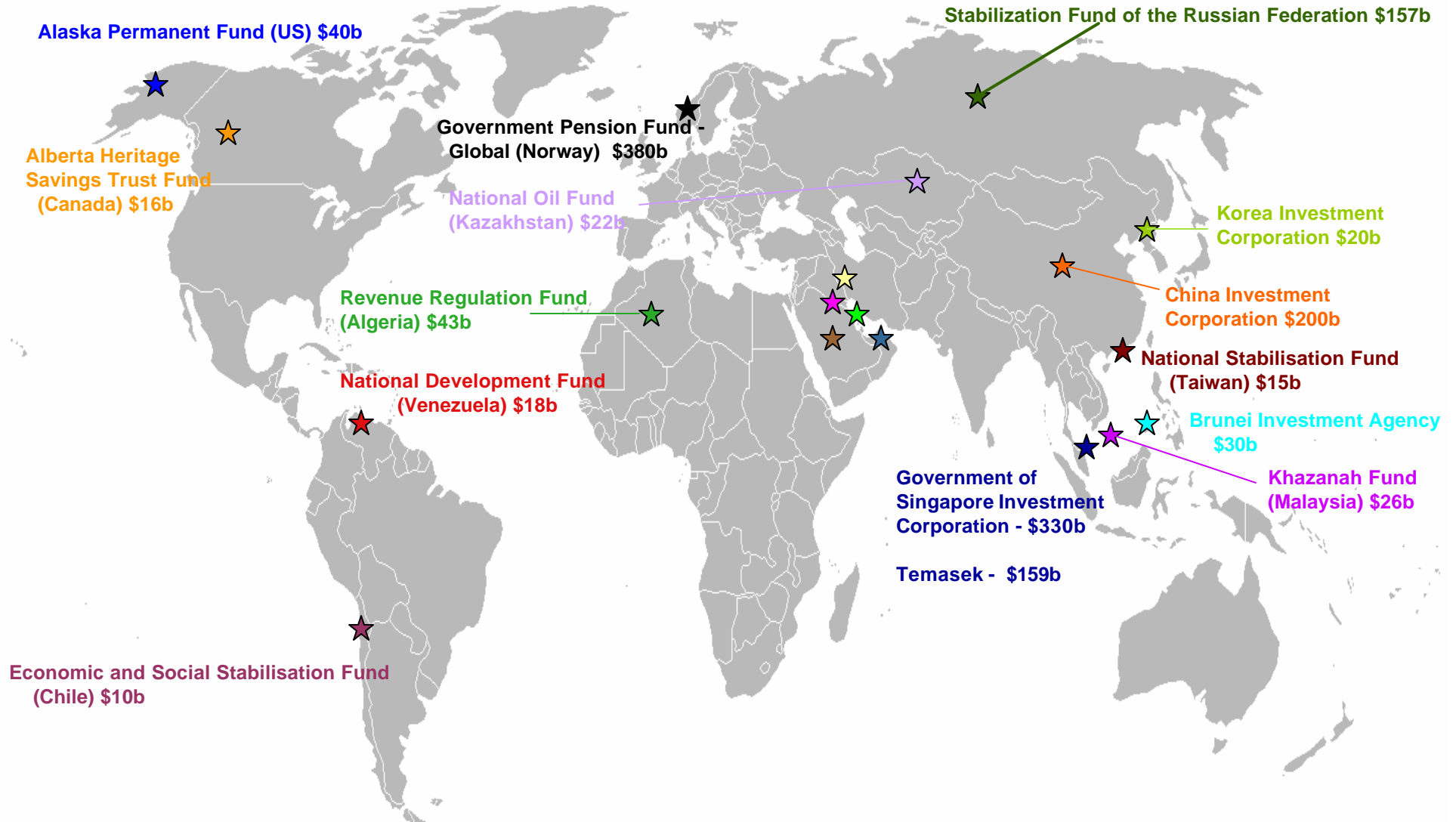
- ✍ **Overview of SWFs**
- ✍ **What Explains the Rise of SWFs?**
- ✍ **Recent Trends and Important SWF Investments**
- ✍ **Political and Legal Responses to SWF Activity**
- ✍ **Analysis of SWF Deal Structures**
- ✍ **Practical Advice for Working with SWFs**

# Who are the Sovereign Wealth Funds?

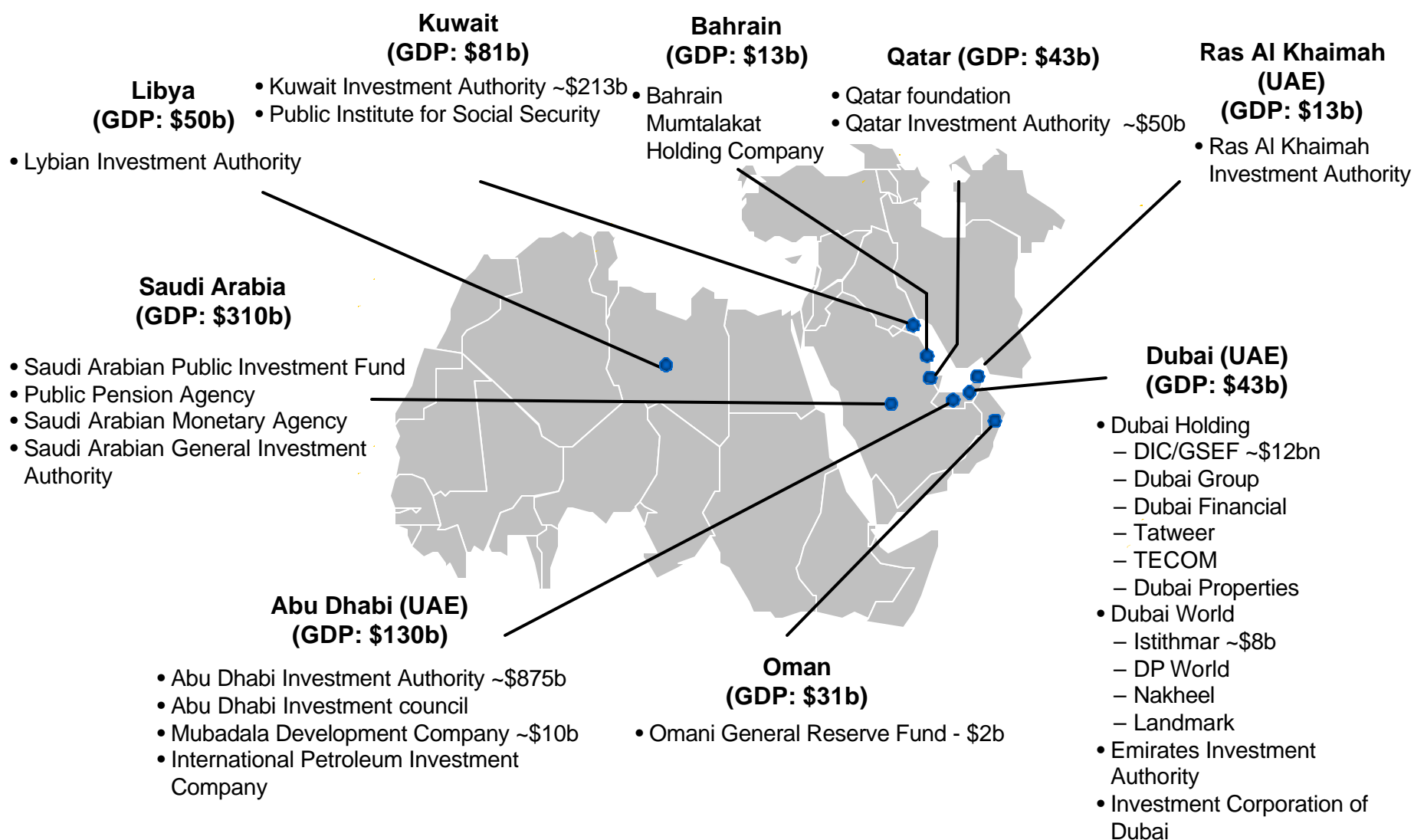
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- Pools of capital raised and managed by governments
- SWFs are now seeking to diversify into foreign assets
- The first SWF was established in 1953 and of the 20 largest SWFs, 13 started before 2000
- These firms manage funds in excess of \$3 trillion, 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

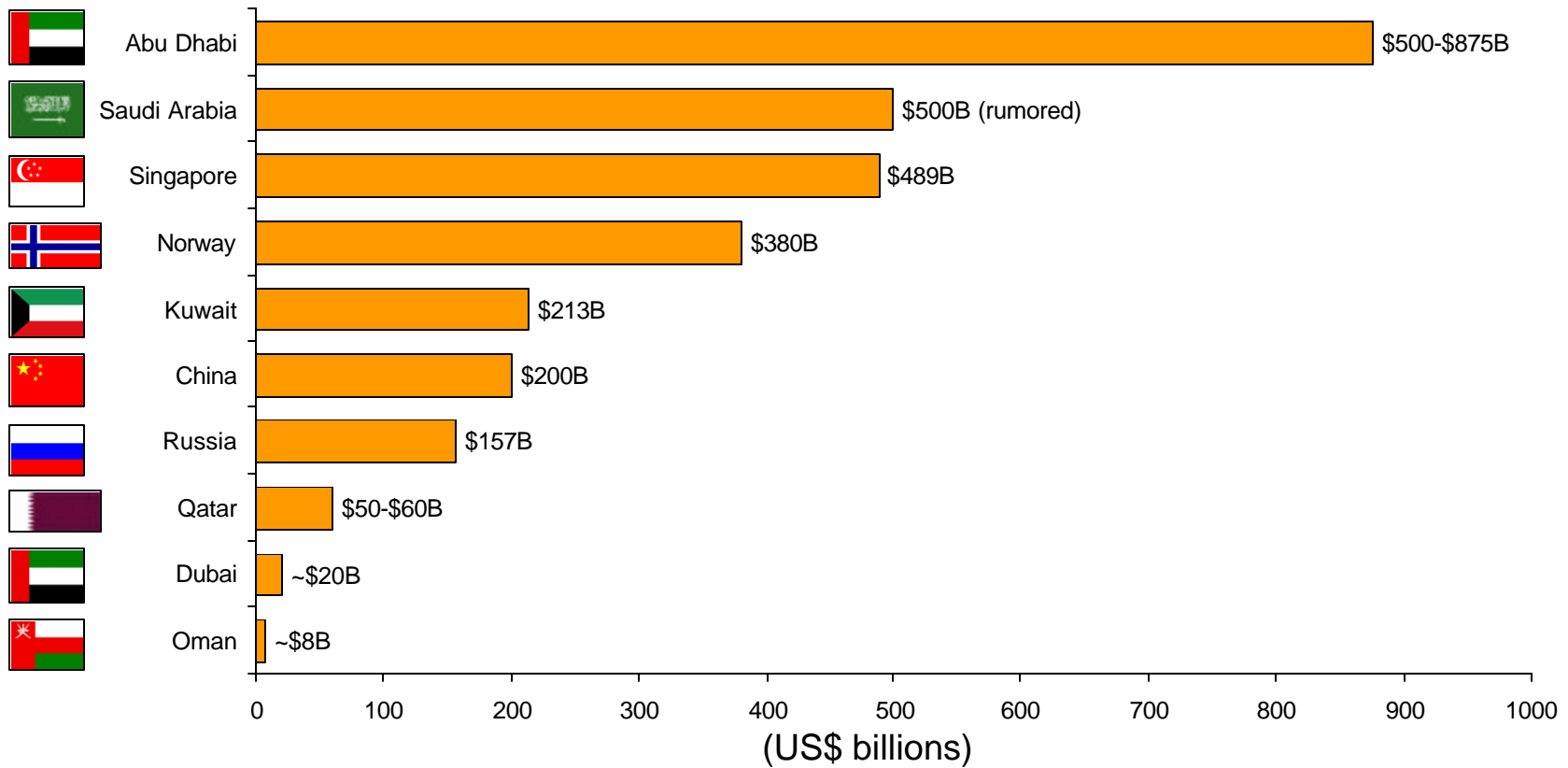


# Sovereign Wealth Funds in the Middle East



# Sovereign Wealth Fund Assets

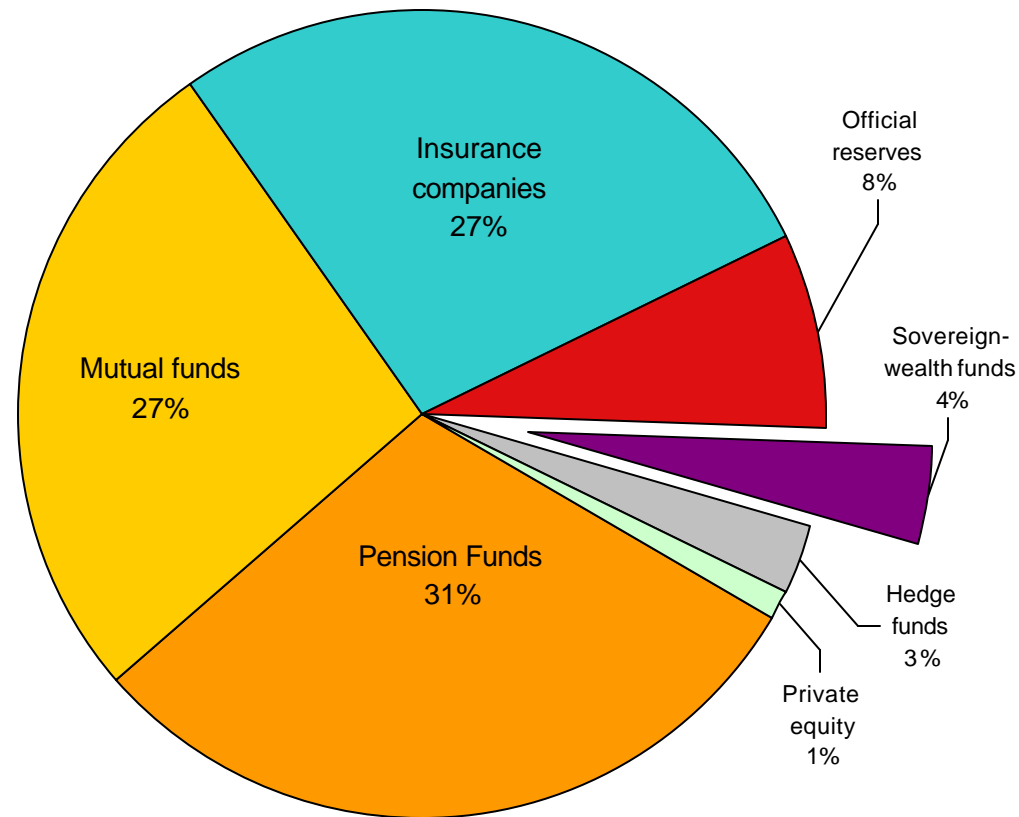
SWFs manage approximately **US\$3 trillion** in assets, including:



# Relative Size of SWF Holdings

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





# What Explains the Emergence of SWFs?

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- 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

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

# Recent SWF Investments

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BARNEYS  
NEW YORK

 London  
STOCK EXCHANGE



NASDAQ

citigroup 

 BEAR  
STEARNS

The Blackstone Group

MGM MIRAGE

 BARCLAYS

AMD 

Morgan Stanley



APOLLO

 UBS

THE  
CARLYLE  
GROUP

Alliance  
Medical

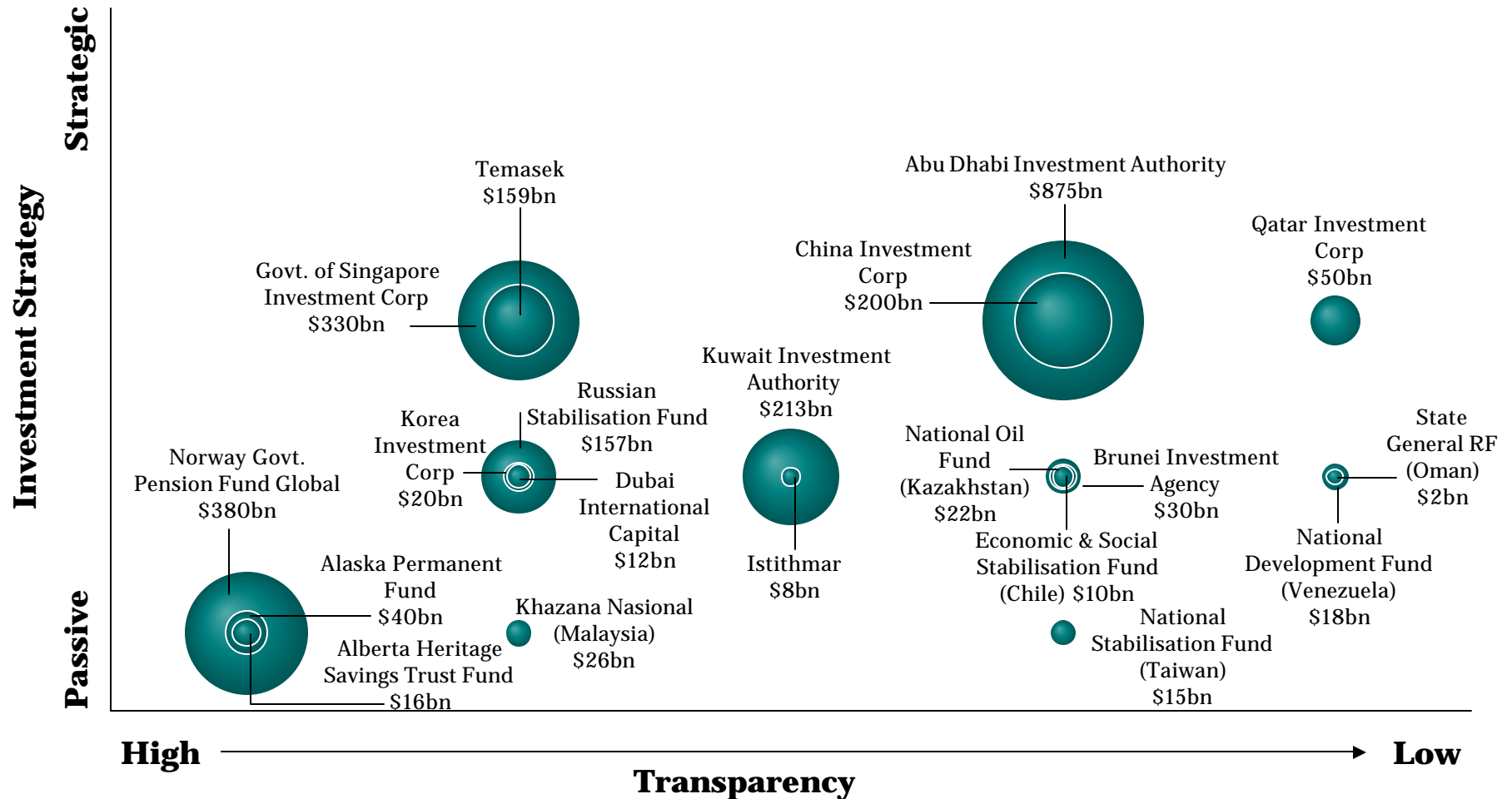
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# **Political and Legal Considerations**

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- 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**

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- Early Skepticism and Protectionism
  - CNOOC
  - Dubai Ports World
- No Objection to Recent Investments in the Global Financial Institutions Sector
- Potential Congressional Intervention?

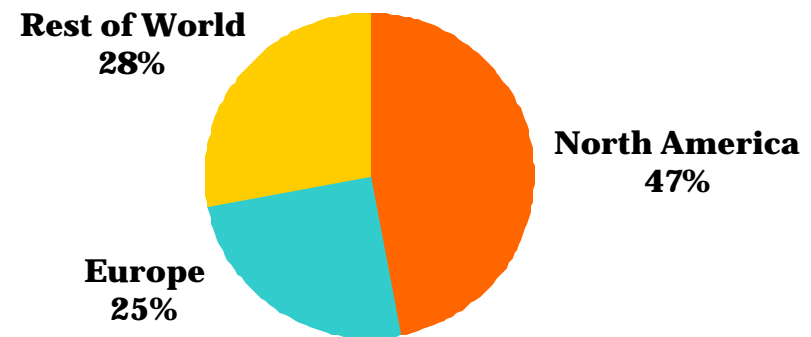
# Key Characteristics of Recent Investments<sup>1</sup>

## Key Characteristics of the Deal Flow

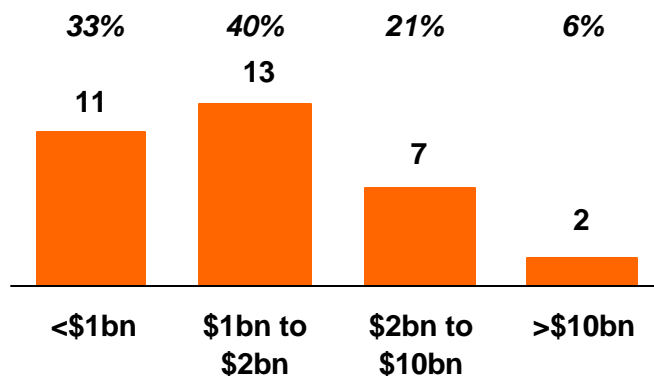
Common characteristics of all recent transactions:

- **Friendly**
- **Minority stakes**
- **No board seats**

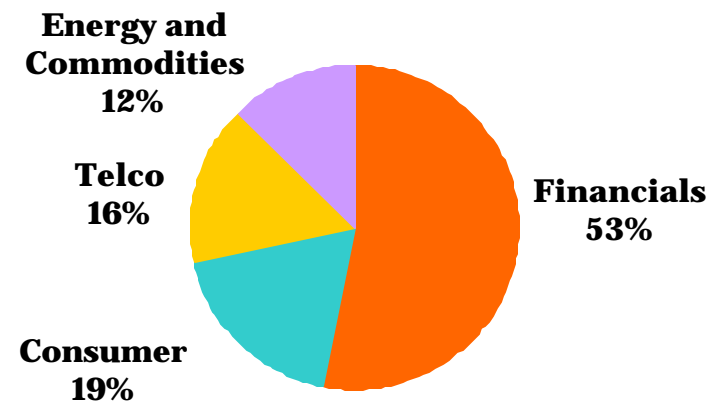
## Breakdown by Geography



## Number of Transactions by Size



## Breakdown by Sector



<sup>1</sup> For deals over \$200m in the last two years.

# Analysis of SWF Deal Structures

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- 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



# **Citigroup II**



- 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

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- 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***

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- 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***

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**

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