



## PRESS RELEASE

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**(1 PM New York, 19:00 Geneva, 22:30 Delhi,  
02:00 – 25 September Tokyo)**

UNCTAD/PRESS/PR/2008/037\*

## SOVEREIGN WEALTH FUNDS BEGINNING TO PLAY MAJOR ROLE IN FOREIGN DIRECT INVESTMENT THROUGH MERGERS AND ACQUISITIONS

*Geneva, 24 September 2008* - Sovereign wealth funds (SWFs) -- which have accumulated reserves rapidly in recent years and now manage assets estimated at US\$ 5 trillion -- are increasingly fuelling large-scale cross-border mergers and acquisitions (M&As) and lately have injected large amounts of capital into several troubled financial institutions in developed countries. The activities by SWFs, which are based mainly in developing countries, are reviewed in UNCTAD's upcoming **World Investment Report 2008**<sup>1</sup>. According to data released in advance of the report, these funds are increasingly directed towards foreign direct investment (FDI).

Sovereign wealth funds are special investment funds, created by some governments as far back as the 1950s, for the purpose of holding foreign assets. They tend to have a higher risk tolerance and to expect higher returns than traditional official reserves managed by monetary authorities.

The number of cross-border mergers and acquisitions involving SWFs increased from one in 1987 to 30 in 2007. These recent ventures have been driven by various market trends, the rapid build-up of reserves generated by export surpluses, changes in global economic fundamentals, and new investment opportunities involving structurally weakened financial firms, the report says.

For example, in 2005, IPIC (United Arab Emirates) acquired Kuokwang Petrochemical Co Ltd (Taiwan Province of China) for US\$ 2.4 billion – the largest ever cross-border deal by an SWF (table I). IPIC has also announced its intention to invest US\$ 0.8 billion in a 20% stake in Cosmo Oil (Japan). In financial services, Temasek Holdings of Singapore acquired a 12% stake

<sup>1</sup> The **World Investment Report 2008: Transnational Corporations and the Infrastructure Challenge** (WIR08) (Sales No. E.08.II.D.23, ISBN: 978-92-1-112755-3) may be obtained from United Nations Sales Offices at the below-mentioned addresses or from United Nations sales agents in many countries. Price: US\$ 95 (50% discount for residents in developing countries and a 75% discount for residents in least developed countries). This includes the book and the CD-ROM. Customers who would like to buy the book or the CD-ROM separately, or obtain quotations for large quantities, should enquire from the sales offices. Residents of countries in Europe, Africa and West Asia may send orders or inquiries to: United Nations Publication/Sales Section, Palais des Nations, CH-1211 Geneva 10, fax: +41 22 917 0027, e-mail: [unpubli@un.org](mailto:unpubli@un.org); and those from the Americas and East Asia, to: United Nations Publications, Two UN Plaza, DC2-853, New York, N.Y. 10017, U.S.A., telephone: 1 212 963 8302 or 1 800 253 9646, fax: 1 212 963 3489, e-mail: [publications@un.org](mailto:publications@un.org). Internet: <http://www.un.org/publications>

in the British bank Standard Chartered. Examples of FDI by SWFs in other industries include investments in telecommunications in Tunisia and plastics in Denmark and Germany (table 1).

While SWFs invest very little in the form of FDI (only 0.2% of their total assets in 2007) this form of investment has been growing: of the US\$ 39 billion that sovereign wealth funds have invested abroad over the past two decades, as much as US\$ 31 billion of that total was committed in the past three years (figure 1). Examples of SWFs that have invested abroad are the Abu Dhabi Investment Authority, China Investment Corporation (CIC), Kuwait Investment Authority, and GIC fund and Temasek from Singapore.

Over the past two decades, almost 75% of the foreign investment by SWFs has been in developed countries. In 2007, SWFs invested US\$ 10.5 billion, or 27% of their total FDI, in developing countries, especially in Asia, with investments concentrated in services, mainly business services. FDI in Africa and Latin America has been very limited so far.

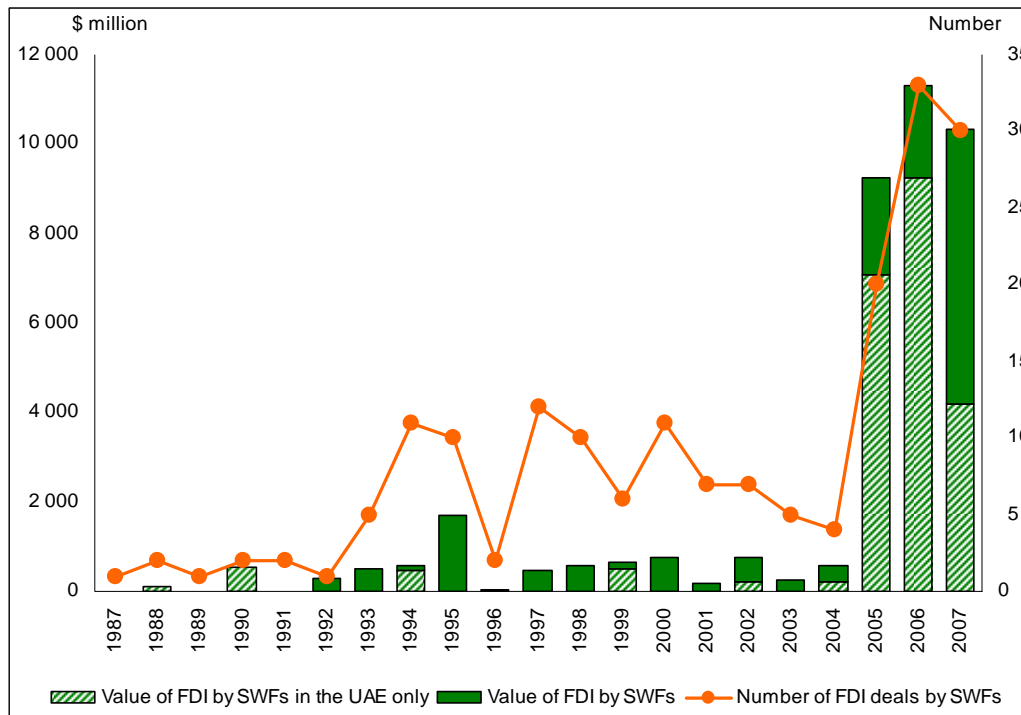
Recent portfolio investments by SWFs have targeted financial services in developed countries. For example, CIC invested US \$5 billion in Morgan Stanley (United States); Abu Dhabi Investment Authority acquired a US\$ 7.5 billion stake in Citigroup (United States); KIC (Republic of Korea) – together with Kuwait Investment Authority – invested US\$ 5.4 billion for an equity capital stake in Merrill Lynch (United States); and GIC fund acquired a US\$ 9.8 billion stake in UBS (Switzerland). SWFs also acquired significant shares in selected private equity and hedge funds in 2007, as illustrated by the acquisition of a 9.9% stake in Blackstone (United States) by CIC, and a 9% share of Apollo (United States) by Abu Dhabi Investment Authority. This may indicate an increase in joint deals among these various investor groups in the future.

Although investments by SWFs in the banking industry in 2006-2007 were generally welcomed, owing to their stabilizing effect on financial markets, they also generated some negative public sentiment, with calls for regulatory restrictions on investments by these funds, notably on national security grounds. And international institutions, such as the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD), have been in the process of establishing principles and guidelines relating to foreign investment by SWFs.

The *World Investment Report* and its database are available online at <http://www.unctad.org/wir> and <http://www.unctad.org/fdistatistics>

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Figure 1. FDI flows<sup>a</sup> by sovereign wealth funds, 1987-2007



Source: UNCTAD

<sup>a</sup> Cross border M&Ss only. Greenfield investments by SWFs are assumed to be extremely limited

Table 1. Twenty selected large cases of FDI by sovereign wealth funds, 1987-2007

Year	Value (\$ million)	Acquired company	Host economy	Acquiring SWF or entity established by SWFs	Home economy	Acquired share (%)
2005	2 359	Kuokwang Petrochemical Co Ltd	Taiwan Province of China	International Petroleum Investment Co (IPIC)	United Arab Emirates	20
2006	2 313	Tunisie-Telecoms	Tunisia	Investment Corporation of Dubai	United Arab Emirates	35
2005	1 691	Borealis A/S	Denmark	Abu Dhabi Investment Authority	United Arab Emirates	50
2005	1 495	Tussauds Group Ltd	United Kingdom	Dubai International Capital LLC	United Arab Emirates	100
2006	1 270	Travelodge Hotels Ltd	United Kingdom	Dubai International Capital LLC	United Arab Emirates	100
2006	1 241	Doncasters PLC	United Kingdom	Dubai International Capital LLC	United Arab Emirates	100
2005	1 222	CSX World Terminals LLC Located (280 Park Ave, New York, N.Y.)	United States	Dubai Ports International	United Arab Emirates	100
2006	1 200	York, N.Y.)	United States	Istithmar PJSC	United Arab Emirates	100
2007	1 160	Mausser AG	Germany	Dubai International Capital LLC	United Arab Emirates	100
1995	1 135	Mediaset SpA (Fininvest)	Italy	Investor Group	Saudi Arabia	18
2006	1 030	Merry Hill	United Kingdom	Queensland Investment Corp	Australia	50
2007	954	Chapterhouse Holdings Ltd	United Kingdom	GIC Real Estate Pte Ltd	Singapore	100
2007	942	Barneys New York Inc	United States	Istithmar PJSC Government of Singapore Investment Corp Pte Ltd (GIC)	United Arab Emirates	100
2007	862	Hawks Town Corp	Japan	GIC Real Estate Pte Ltd	Singapore	100
2007	821	Capital Shopping Centres PLC	United Kingdom	GIC Real Estate Pte Ltd	Singapore	40
2007	621	Bank Muscat	Oman	Dubai Financial LLC	United Arab Emirates	15
2007	612	WestQuay Shopping Center	United Kingdom	GIC Real Estate Pte Ltd	Singapore	50
2007	596	Westfield Parramatta	Australia	GIC Real Estate Pte Ltd	Singapore	50
2005	594	Bluuwater Shopping Centre	United Kingdom	GIC Real Estate Pte Ltd	Singapore	18
2006	594	Adelphi	United Kingdom	Istithmar PJSC	United Arab Emirates	100

Source: UNCTAD