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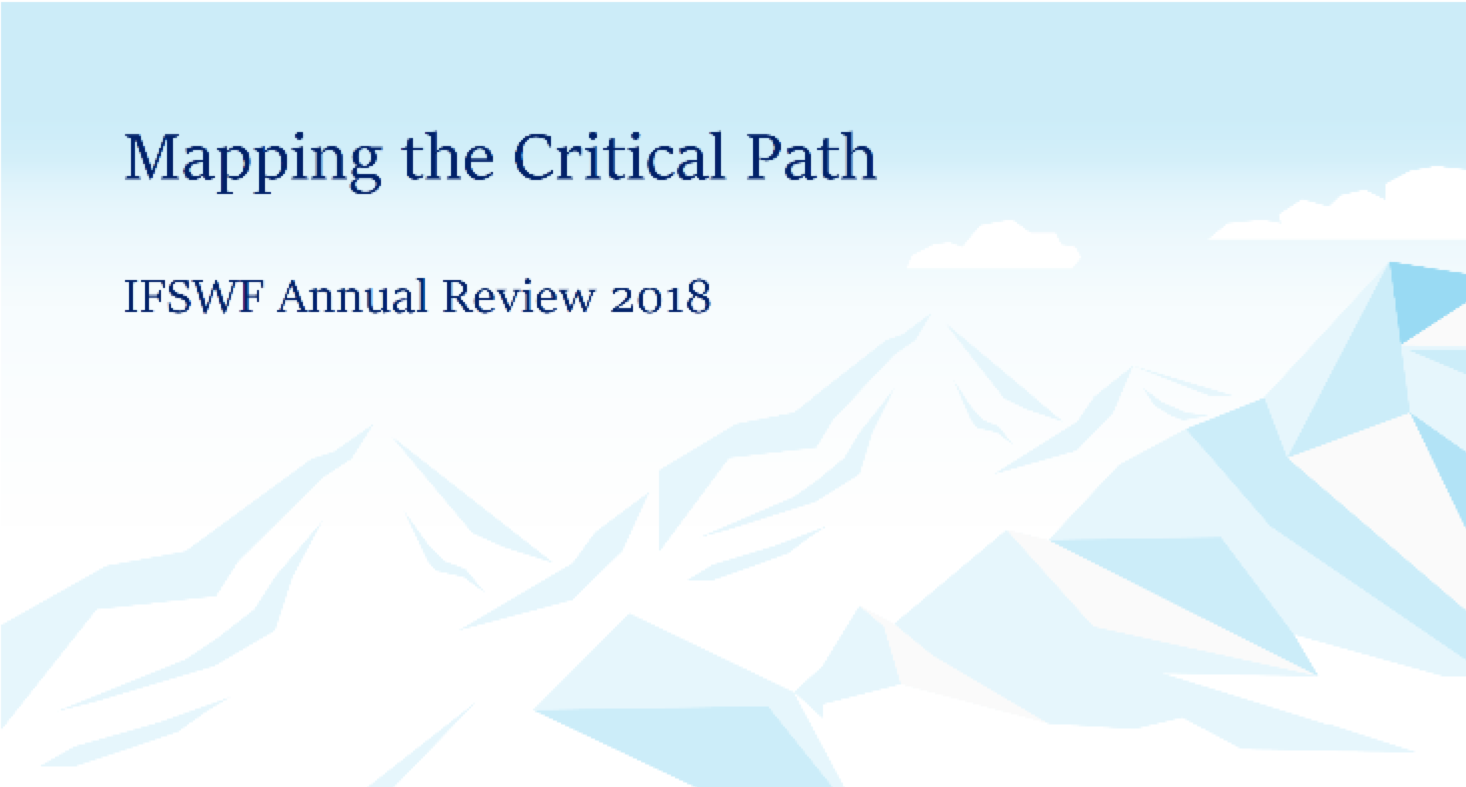
Sovereign wealth funds accelerate venture capital investments



London, 23 May: Sovereign wealth funds boosted direct growth-capital investment in disruptive industries in 2018 following a period of lower allocations, according to research from the International Forum of Sovereign Wealth Funds (IFSWF).

The 2018 IFSWF Annual Report – the first revealing all SWF direct investments in 2018 – found that sovereign wealth funds (SWFs) provided the most equity financing for unlisted technology companies for any year since 2015: $3.4 billion over 44 deals. SWFs also favoured private healthcare companies, completing 40 deals, against 21 in 2017.

IFSWF data provides, for the first time, granular insight into how SWFs invest across all cycles of venture-capital financing, particularly in software, fintech, and biotech companies. In 2018, SWFs' commitments to early-stage companies doubled on the previous year, while the number of transactions at the growth-capital stage increased by over 40%.

Whilst SWFs' venture-capital investment grew, they completed fewer direct equity investments in 2018 than they did in 2017 (224 versus 234). In addition, the overall value was also lower: $23.4 billion, compared to $29.2 billion, possibly driven by concerns over asset prices and even greater competition in private markets. In an environment in which innovative companies find it easier to stay private for longer, SWFs increased investments in unlisted companies by almost a fifth year-on-year.

The IFSWF Annual Report is produced in association with the Sovereign Investment Lab at Bocconi University in Milan and PwC, using data from the IFSWF database on direct equity investments by global sovereign wealth funds going back to January 2015. The report also found:

- **Private markets bounce back**: SWFs retreated from private markets in 2017, but in 2018 they were back with a bang. With public markets shrinking, due to fewer IPOs and large share repurchases, SWFs refocused on venture- and growth-capital financing rounds to generate higher risk-adjusted returns.
- **Investing in the age of new urban mobility**: Some SWFs are using investments in real estate as a proxy to harness the opportunities generated by changes to people's lifestyles. As a result, SWFs are cooling on office properties and homing in on assets such as logistics, data centres, and smart infrastructure which supports the changes in how people work and spend their leisure time.
- **Novel partnership and co-investment structures**: SWFs are increasingly collaborating rather than going solo on deals or simply investing in funds, enabling them to harness external expertise across sectors. SWFs are also being innovative in the forms and structures these partnerships take, adapting them to their investment horizons and interests.

Duncan Bonfield, CEO of IFSWF, said: "This review is a new effort to improve public understanding of sovereign wealth funds. As these funds increasingly look to invest directly through their own investment teams, our data is intended to shine a light on their asset allocation trends, and to clarify many of the misconceptions about what these funds are and how they invest."

Bernardo Bortolotti, Director of the Sovereign Investment Lab, said: "SWFs have embraced alternative investments, increasing their allocations to private equity, real estate, venture capital, and infrastructure. They are testing different investment models and adapting strategies such as co-investment and direct equity investments. Although these strategies can be costly and entail new organisational and governance risks, the rise of investment alliances appears to be a rational response to disintermediation."

Will Jackson-Moore, Global Leader for Private Equity, Alternative Assets and Sovereign Funds at PwC said, "Sovereign wealth funds are playing an increasingly important role globally due to their ability to take a long-term approach and seek out innovative opportunities for investment in a challenging environment.

"Yet they are also playing a highly influential role with regards to environmental, social and governance (ESG) concerns, especially around climate impact. SWFs, particularly those investing on behalf of a nation's citizens, are likely to come under increasing pressure to divest from fossil fuels in the future.

"This report offers valuable insights into how SWFs, by embracing sustainable investing, can improve the quality of life for current citizens and protect future generations. PwC is therefore delighted to work with IFSWF to support a values-led approach to investment practices in the field.”

The full report can be found at http://ifswfreview.org/

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About the International Forum of Sovereign Wealth Funds

The International Forum of Sovereign Wealth Funds (IFSWF) is a global network of sovereign wealth funds (SWFs) established in 2009 to enhance collaboration and dialogue between members, to promote a deeper understanding of SWF activity and to raise the standard for SWF best practice and governance. The Santiago Principles are central to the IFSWF. They consist of 24 generally accepted principles and practices voluntarily adopted by IFSWF members. The Principles endorse transparency, good governance, accountability and prudent investment practices.

About the Sovereign Investment Lab

The Sovereign Investment Lab (SIL) is a group of researchers brought together in the Baffi Carefin Centre for Applied Research on International Markets, Money Banking and Regulation at Università Commerciale Luigi Bocconi. The Lab tracks the trends of sovereign fund investment activity worldwide and conducts path-breaking research on the rise of the State as an investor in the global economy. Research output aims to meet the highest scientific standards, but also to be accessible for a variety of stakeholders also outside academia: institutional investors, policymakers, diplomats, regulators, and the media. SIL is supported by Boston Consulting Group, CDP Equity and Intesa Sanpaolo.

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