May 2021 Newsletter

The amazing world of
Sovereign Wealth Funds
& Public Pension Funds
analyzed with a global lens

Global SWF Times

April 1st-30th 2021

- *Investments:* The number of deals peaked but their value decreased
  - Largest deal: **GIC** spent $2.3b for 80% of logistics manager ESR
  - **NBIM** closed two deals in private markets (RE & Infra) for $1.7b
- *Reporting:* SOIs have started to report 2021 Q1 figures
  - **APFC**, **FF**, **NBIM** & **NZSF** grew a 3.3%, 2.5%, 0.9% & 2.6% (US$)
  - **CPP** is expected to publish FY21 annual report on May 15
- *Greener and more resilient:* SOIs are tackling ESG in innovative ways
  - **CPP** merged its efforts under a new Sustainable Energy Group
  - **Temasek** signed a $600m JV with Blackrock for sustainable VC
  - **NSIA** backed a deal between KEDCO & Konexa for green energy
- *Not only about "E":* Investors including **NBIM**, **APG** and **NZ Super** are walking away from Myanmar companies over human rights abuses
- *Ramadan Cash:* ME funds continue to seek much-needed liquidity
  - **MIC** cashed $1b from Aldar and may IPO GlobalFoundries & EGA
  - **ADQ**'s owned Abu Dhabi Ports secured a $1b loan from banks
  - **PIF** may receive some proceeds from the sale of 1% of Aramco
  - **KIA** renegotiated terms with the $23b debt owed by KPC
  - **OIA** saw an additional $1.6b withdrawn by the government
- *BFFs:* UAE's **Mubadala** will pay $1.1b for an Israeli natural gas field
- *Setback:* Despite much effort and some progress including an audit, Libya's **LIA** received a new freezing order from the UN for its entities
- *Starting Strong:* Djibouti's **FSD** reported a 33% RoE in its first year. After building its track record, the fund aims at fundraising $1.5b
- *New Kid on the Block:* Bangladesh set up a new strategic fund, **BIDF**, this year's second SWF after Cape Verde's stabilization fund **FSDIP**
- *Jobs:* **NPS** is looking to hire…54 new investment managers! The fund has lost 130 investment staff since it moved outside of Seoul in 2017

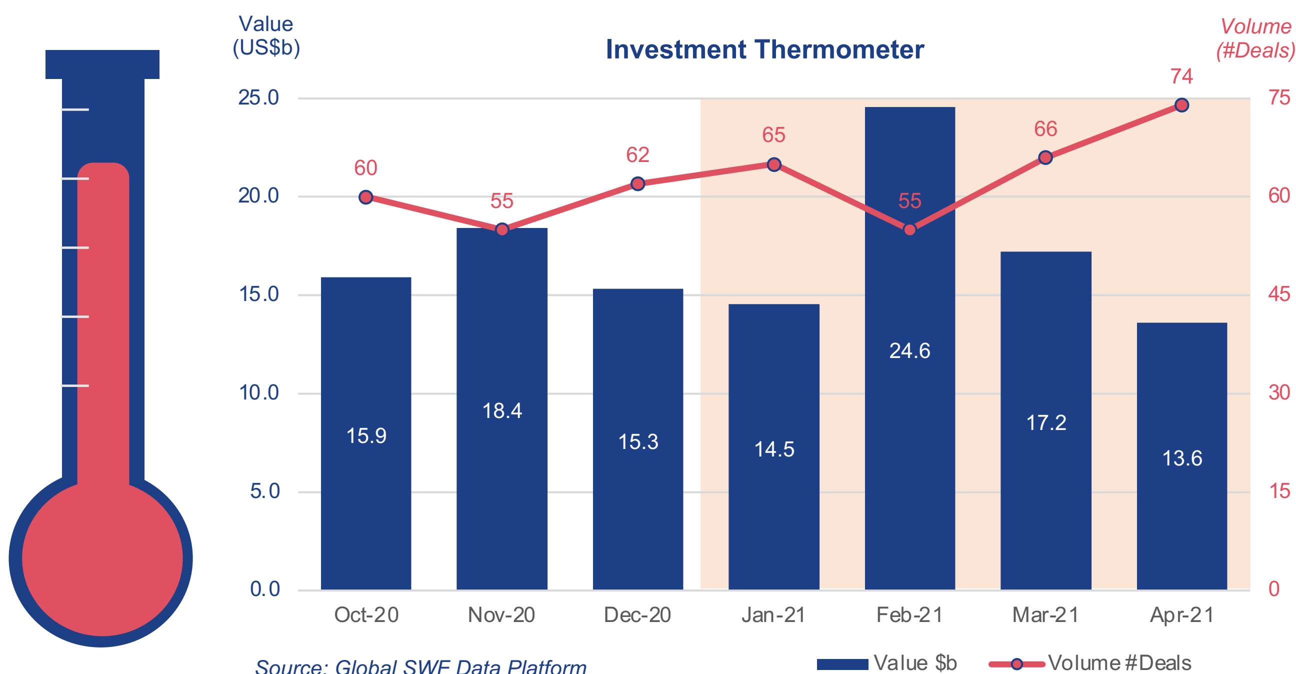
Most active SOIs in Apr'21

Fund	#Deals	Value ($b)
GIC	13	4.6
NBIM	2	1.7
CDPQ	8	1.4
Temasek	16	1.2
APG	2	0.7
Mubadala	5	0.7
CPP	4	0.6
PGGM	2	0.5
IMCO	1	0.3
CalSTRS	1	0.3
Others	20	1.6
Total Apr'21	**74**	**13.6**

Appointments at SOIs in Apr'21

Fund	Position/s
ADIA	Head Portfolio Analytics FIT
AIMCo	CEO
CIC	Head Public Equities
CPP	Head Sustainable Energy
HKMA	Deputy CEO
NBIM	Global Head FI Trading
NIIF	Partner, Master Fund
NZ Super	GMs, Finance & Risk
OPTrust	Board of Trustees
OTPP	CFO
PIF	Investment Director
Samruk	CEO

Source: https://globalswf.com/activity



Source: Global SWF Data Platform

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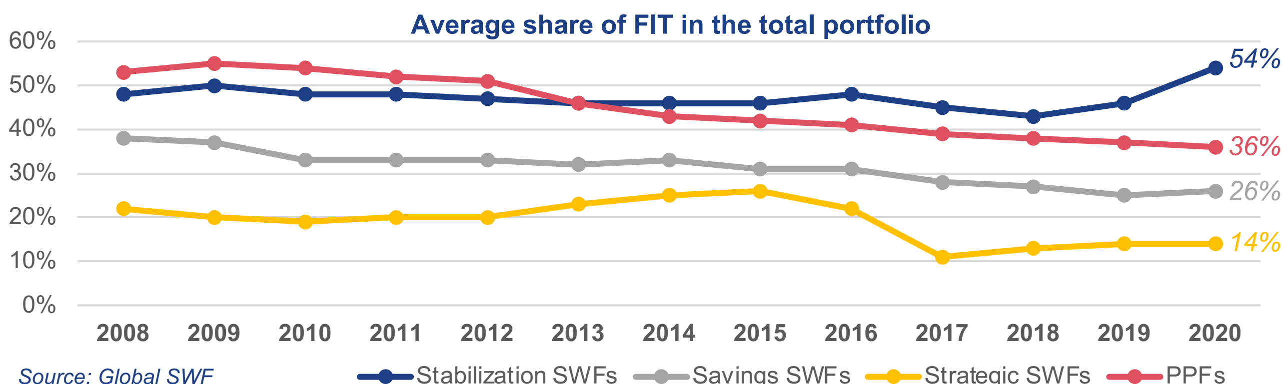
Asset Class Analysis: Fixed Income & Treasury ("FIT")

The approach to FIT varies radically according to mandate, leading to different trends for different fund types. FIT provides a low level of risk and high liquidity for Stabilization SWFs with a "rainy-day" mandate, prompting an uptick in allocation during the pandemic. However, the likelihood of a lengthy period of low yield on government bonds is prompting funds with long-term horizons (PPFs and Savings SWFs) to rethink their allocation to the asset class as well as diversifying from traditional instruments towards innovative strategies. For Strategic SWFs with a domestic economic development focus, FIT has low and diminishing interest, although in the future they may see debt platforms as means to achieve their strategic ambitions.



***Stabilization SWFs**: With a need to retain liquidity for fiscal support, "rainy-day funds" have a conservative approach to risk favoring investment grade treasuries of developed markets. Larger funds, particularly the investment portfolios of Central Banks, tend to have a lower allocation to fixed income than smaller funds. Aggregate allocation by stabilization funds was **54%** in 2020. In response to the economic shocks caused by the pandemic, these funds shifted towards greater liquidity and the aggregate value of FIT allocation by all stabilization SWFs increased a 15% to **$1.1tn**.*

***Case study:** Chile's **ESSF**, funded by copper export revenues, maintains 95% of its portfolio in FIT, with a high weight of US sovereign bonds, T-Bills and bank deposits which comprise more than 40% of AuM. US, Japanese and German exposures dominate **ESSF**'s portfolio, ensuring allocation only to investment-grade paper. With a mandate dedicated to stabilizing government revenues at times of declining copper revenue and low economic growth, the fund experienced a third successive year of withdrawals in 2020 with $4.1b taken from its coffers. Yet, asset allocation barely changed with the liquidity profile across money market, sovereign bonds and equities in line with 2019 levels.*

***Savings SWFs**: These investors generally face less pressure for short-term liquidity, but still retain a sizeable chunk of their portfolio in fixed income. Some may also be subject to capital calls, as in the case with **ADIA**, **GIC**, **KIA** and **NBIM** in 2020. Some savings funds have sought to gain more exposure to emerging market debt as well as corporate and real estate debt where yields are higher. Our research finds **26%** aggregate allocation to FIT across all savings SWFs in 2020, up 1pp from the previous year. The value of FIT held by all savings funds declined a 5% to **$1.3tn** in 2020.*

***Case study:** Norway's **NBIM** allocation to FIT fell from 50% to 25% over the past 12 years as it ramped up its investment in public equities and, from 2012, in private markets. In 2020, government bonds comprised 57% of its FIT holdings, led by US Treasuries, followed by Japanese- and German-issued debt. **NBIM** has introduced risk into the portfolio with 26% of its FIT portfolio in corporate bonds and 5% in EM bonds. The current policy limits junk bonds to 5%, although there is willingness to increase the use of derivatives to exploit price differentials and segmentation opportunities. **NBIM** is also set to develop responsible investment in FIT with the likelihood of green bonds growing in the portfolio.*

***Strategic SWFs**: Of all three types of SWFs, strategic funds have the lowest allocation to fixed income with aggregate allocation of **14%** across the sector. With a mandate that is heavily oriented to managing domestic assets for the purpose of economic development, fixed income is largely viewed as a pool of liquidity. Aggregate allocation to the asset class across all strategic funds dropped 8% in 2020 to **$0.2tn** as new strategic funds were established, based on existing state-owned enterprises and heavily oriented towards infrastructure.*

***Case study:** Abu Dhabi's **Mubadala** is countering that trend, increasing weight into FIT via its Mubadala Capital platform with a focus on higher yield, notably in direct lending to commercial organizations in North America and Europe, and across various sectors. Specifically, it focuses on companies with earnings under $50m. It is also establishing lending platforms and in 2020 forged a $3.5b direct lending partnership with Barings and agreed to anchor a $12b alternative credit partnership led by Apollo. Mubadala's approach is therefore more akin to private equity than to sovereign debt, using it to gain exposure to a broad range of market sectors and diversifying debt away from traditional instruments.*

***Public Pension Funds**: With their long-term mandate, PPFs are similar in behavior to savings funds, despite their different liability profile. Total FIT allocation declined 8% in 2020 to **36%** as they deployed more capital into alternatives. Yet, due to the number of PPFs and their size, they hold a combined portfolio of **$6.5tn** – 2.5x the level of fixed income of all the SWFs combined. With little scope for significant returns from Treasuries, PPFs are diversifying their FIT portfolios into corporate and real estate debt as well as innovating with investment in green bonds and private credit.*

***Case study:** Canada's **OTPP** responded in 2020 to negative yield sovereign debt exposure by cutting its bond holdings in developed markets, having taken advantage of a rally in the first half of the year, and shifted into public equities at the right time to capitalize on market recovery. As a result, allocation to FIT was slashed to a third of its 2019 level from $93.1b to $34.6b and the asset class achieved 20.7% return. Mindful of the likely low yield in Treasuries, the Ontario pension fund is increasing exposure to private credit, in which it invested $11.9b by end-2020, and deploying more capital into real assets, which it sees as a good alternative to fixed income and treasuries.*

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NZSUPERFUND
Te Kaitiaki Tāhua Penihana Kaumatua ō Aotearoa

Fund of the Month: New Zealand Superannuation Fund (“NZ Super”)

Contrary to what its name suggests, **NZ Super** is not a pension fund but a SWF in its own right, and one that has performed consistently well since its inception in 2001. After a seven-year hiatus, the NZ Government resumed capital injections into the fund, which expects to exceed its current US$ 40 billion and peak in size at approx. 40% of the country’s nominal GDP in the 2070s. We had the privilege to talk to Mr. Stephen Gilmore, **NZ Super**‘s CIO since 2019, about the fund’s success factors and future plans.

Mr. Stephen Gilmore, NZ Super’s Chief Investment Officer (CIO)

[GSWF] NZ Super is a unique growth story, having turned US$ 8.2 billion of net contributions into an US$ 40 billion net worth today. What are your success factors? *[NZSF] Our five major success factors include (i) a genuine long-horizon as we do not expect to make any large contributions back to the Government until the 2050s; (ii) a fairly healthy risk appetite with a benchmark portfolio made up of 80 percent equities and 20 percent fixed income; (iii) a very strong governance structure; (iv) a portfolio that is fully currency-hedged; and (v) a very successful strategic tilting / dynamic asset allocation approach.*

[GSWF] What has changed since 2018/19 transition, with Matt Whineray taking over as CEO and you as CIO? *[NZSF] There have not been dramatic changes (“evolution” rather than “revolution”). The Government restarted its contributions, so the fund will be larger. We have given considerable thought to which investment opportunities are scalable. That has included, among other things, a greater focus on real assets, where we have recently hired specialists in real estate and infrastructure. We are also improving our data analytics and risk management processes and have increased our focus on sustainable investing.*

[GSWF] Your current allocation is 10% bonds / 71% stocks / 19% private markets – will this change in the next few years? *[NZSF] It is a difficult issue as we expect continued low interest rates and low prospective returns. In 2019, we looked at new opportunities including pitching alongside **CDPQ** to build and operate Auckland’s proposed Light Rail project. While our bid didn’t go through, it was a great learning experience, and we expect to focus on similar opportunities in the future. We will also enhance our engagement with external managers, increase our scale and identify key new partners to work with.*

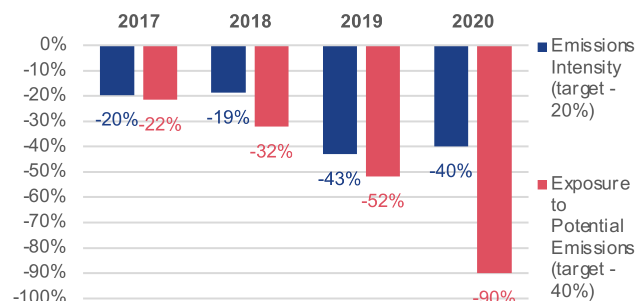
[GSWF] You recently co-invested with OTPP into New Zealand’s largest domestic pathology and lab testing business, and 14% of your portfolio is in NZ – what are your views of the local market? *[NZSF] We have a comparative advantage in NZ and know the market well. We also pay heed to a Ministerial Direction we received from Government in 2008 to identify and consider investment in NZ. In the end however any investment has to meet our mandate and deliver positive risk adjusted returns.*

[GSWF] You have direct stakes in three US-based start-ups. How have these worked out for you and are you bullish on VC? *[NZSF] An average investment in VC does not necessarily add value, yet there is potential for great opportunities in the industry. We manage everything from Auckland though, so it can be a challenge for remote holdings given time zones and travel difficulties.*

[GSWF] NZSF’s 6-yr annualized return has been higher than any other SOI at 9.52%. How is your performance so strong? *[NZSF] Besides the five success factors I mentioned, it is key that we stick to the program. A good example was COVID, where we did not reduce risk, but instead increased it by leaning in to a falling and cheapening equity market. In 2018, we publicized what would happen if we went through a repeat of a shock like the GFC. So when we had the shock in 2020 our stakeholders were ready.*

[GSWF] Your decision to reduce the carbon exposure in your reference portfolio has added an additional 0.6% p.a. since it was incepted in 2016. What is the rationale? *[NZSF] We thought that our then carbon exposure meant that we were taking undue risk that was not being rewarded, so we reduced our exposure, and this happened to increase our returns. We are perceived as leaders in responsible investing, but the bar keeps rising so we’ve embarked on an effort to maintain our social license / best practice.*

[GSWF] All of NZSF’s 155 staff work out of Auckland – are you considering opening any office overseas in the future? *[NZSF] We have a competitive advantage in NZ, but what edge would we have elsewhere? And then there is the issue of culture. Sometimes the distance provided by being based somewhere like Auckland allows for better perspective. It can be different in a place like London where it might be more difficult to isolate the signal from the noise. It is unlikely we will open any other office in the near future, although the team continues to expand and we’re undertaking a global search for roles such as Head of Asset Allocation.*



Source: NZ Super Fund’s Climate Change Report 2020

[GSWF] You spent almost nine years driving Future Fund’s investment strategy – how do you compare both funds? *[NZSF] There are some similarities including the naming “Guardians” and the founding CEO (Paul Costello), but also a lot of differences. One of the major differences is history: **NZ Super** was set up first, was small and had an inflow of capital, whereas **Future Fund** had a lump sum to start with and no subsequent contributions. That and the fact **Future Fund** has a shorter time horizon, as drawdowns may happen earlier than in **NZ Super**, led it to adopt a more conservative risk profile. Also, the governance arrangements are slightly different, and we are more systematic around dynamic asset allocation. But the relationship is very close. For instance, Sue Brake (**Future Fund**’s CIO) worked for 7.5 years for **NZ Super**. We are eager to explore further partnerships and club deals with them and other SOIs around the world.*

Infographic of the Month: Returns of State-Owned Investors

SWF
PPF

Figures represent CAGR between 2015 and 2020

All figures are in %

NZ Super Fund averaged the highest return of 9.52% with 22% of its portfolio allocated to alternative assets

AP1-7 refers to the weighted average of the returns of Sweden's six national pension funds

ADIA's performance has been estimated based on the reported 20-yr and 30-yr rolling returns

GPIF is the largest PPF in the world with **$1.7t** in AUM and 0.6% invested in private markets

GIC's performance has been estimated based on the reported 5-yr, 10-yr and 20-yr rolling returns

NBIM is the world's largest SWF with **$1.28t** in AUM and 2.5% of its portfolio in unlisted real estate

This is the return of the overseas portfolio of **CIC**, Asia's largest SWF with **$1.21t** in AUM

CalPERS is the largest PPF in the Americas with **$442b** in AUM

APG is the largest PPF in Europe with **$705b** in AUM

9.52
9.48
CPP 9.39
CDPQ 8.03
Future Fund 8.01
OTPP 8.01
AustralianSuper 7.94
7.68
7.65
VFMC 7.38
BCI 7.30
PSP 7.23
KIC 6.87
Texas TRS 6.65
PensionDanmark 6.55
OMERS 6.53
CalSTRS 6.47
6.47
AlaskaPFC 6.18
NPS 6.04
SBA Florida 5.96
PIF 5.81
TLPF 5.79
5.64
KEVA 5.63
T&T HSF 5.59
NYSCRF 5.32
Temasek 5.25
NMSIC 4.95
BLF 4.60
Texas PSF 4.43
4.40
WYO 3.8
FRR 3.35
HKMA EF 3.31
Chile ESSF-PRF 3.03
2.74
ISIF 2.56
SOFAZ 2.26
0.00

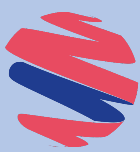
Source: Global SWF Data Platform

In our 2021 Annual Report issued on January 1, 2021, we analyzed annual returns and compared the performance of 10 major SWFs and 10 major PPFs during a period of six years (2015-2020). Now that the latest year-end results are available for most of these funds, we have looked at 20 major SWFs and 20 major PPFs in an apples-to-apples analysis.

An important caveat is that those funds reporting on March 31 (notably, **CPP**, **GIC** and **Temasek**) and those reporting on June 30 (notably, **NZ Super**, **Future Fund** and **Alaska**) have a comparative disadvantage. In fact, if **NZ Super** and **CPP** had ended their fiscal year on December 31, their CAGRs for the period 2015-2020 would have been 11.09% and 12.48%, respectively.

The second caveat is that **ADIA**'s and **GIC**'s single-year returns have been estimated from their reported rolling returns (20-yr and 30-yr for the former; and 5-yr, 10-yr and 20-yr for the latter) and our estimates have not been confirmed by the funds.

The pattern that emerges from the chart above though, is that SWFs do generally worse than PPFs, despite their lack of liabilities and a more flexible risk profile. More importantly, we have found a causality between the efforts put on governance, sustainability and resilience (i.e., the funds' GSR scores) and their financial performance. See next page for details.



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ESG Focus: Correlation between Governance, Sustainability and Financial Returns

The cases of **NZ Super** and Sweden's **AP Funds** seem to indicate that there is a correlation between maintaining high governance and sustainability standards and achieving superior financial returns. To prove this, we have examined the latest results of **Global SWF**'s GSR Scoreboard and the average returns over 2015-2020, for 52 different State-Owned Investors.

We have found a "moderate positive relationship", with a correlation coefficient of 0.52, between the two variables. In other words, those funds that do not look after proper governance and sustainability, do not generally perform very well. This is true for **ADIA**, **GIC** and **Khazanah** and could also be the case for **KIA**, **OIA** and **QIA**, but we were unable to estimate their returns.

There are some exceptions, as **CIC**, **KIC** and **PIF** have managed to perform well despite having lower-than-average GSRs. On the flip side, funds like **ISIF**, **GPIF** and **Temasek** have high GSR standards but show lower-than-average financial returns.

Finally, there are no surprises in the "best in class" category. **NZ Super**, **Future Fund** and **NBIM** lead the SWF pack, while **AP Funds**, **CPP** and **CDPQ** show the way for pension management. When it comes to SOIs, *doing good is good for business.*

Returns 2015-2020

-1.0% 0.0% 1.0% 2.0% 3.0% 4.0% 5.0% 6.0% 7.0% 8.0% 9.0% 10.0%

2020 GSR Score

100% 90% 80% 70% 60% 50% 40% 30% 20% 10%

High GSR Low Returns | **High GSR High Returns** | **Low GSR Low Returns** | **Low GSR High Returns**

Average

NYSCRF, Temasek, PD, CalSTRS, APG, NBIM, FF, NZSF, AP1-7, CDPQ, PSP, BCI, AuSuper, CPP, PGGM, CalPERS, AIMCo, OPTrust, KWAP, NSIA, OMERS, OTPP, ISIF, GPIF, HKMA, VFMC, HOOPP, FRR, NPS, SBA, IMCO, Chile, Texas PSF, VER, KEVA, Alaska, KIC, CIC, GIC, TLPF, Samruk, WYO, FAP, ADIA, SOFAZ, Khazanah, T&THSF, NMSIC, Mumtalakat, NSSF, PIF, NBK

Source: Global SWF analysis

__Global SWF__ is a financial boutique focused on State-Owned Investors, including Sovereign Wealth Funds and Public Pension Funds. We assist governments to establish or reformulate their investment funds (__Consulting__), and run the most comprehensive platform of SWFs' / PPFs' strategies, portfolios and executives (__Data Services__)

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