November 2021 Newsletter

Global SWF Times

October 1st-31th 2021

- *Investments:* Slow month with 56 investments worth US$ 14.0 bn
  - **GIC** was the largest spender, with two acquisitions over US$ 1 bn: 30% of telecom group CETIN and a High Tech Campus in Eindhoven
  - 24 new deals in **Venture Capital**, which continues to beat all records
- *Reporting:* SOIs had more conservative figures in 2021 Q3
  - Savings fund incl. **Future Fund** and **NBIM** grew in local currency only
  - Stabilization funds incl. **HKMA**, **NWF** and **SOFAZ** stayed fairly stable
  - Pension Funds incl. **CalPERS** and **CalSTRS** had a modest growth, too
- *COP26:* Investors announced grand plans to tackle climate change
  - **ABP** pledged to divest US$ 14.7 bn in fossil fuels (see our analysis)
  - **NZ Super** joined the PAII-convened Net Zero Commitment
  - **FGIS**, **HCAP**, **NSIA** and **TSFE** joined the One Planet SWF Group
  - **ADQ** set up its first ESG policy; **KIA** will invest in Saudi green assets
- *Football mania:* **PIF** closed the acquisition of NUFC, after months of talks. Other Gulf-owned clubs include Malaga, PSG, ManCity, SUFC & ParisFC
- *Birthdays:* **GIC** celebrated its 40th anniversary, and **NZ Super**, its 20 years
- *Domestic push:* Saudi's **NDF** launched a "National Infrastructure Fund" to be managed by Blackrock and to invest US$ 53 bn in the next decade
- *Show me the money:* 643,000 Alaskans will receive a check for US$ 1,114 thanks to **APFC**, the world's only SWF to give dividends to its citizenry
- *New SWFs:* Gvts continue debating with different degrees of success
  - Namibia is set to launch a SWF that will soon replace the **MDF**
  - Bahamas will set up a vehicle to monetize the access to land & sea
  - Djibouti's **FSD** future turns bleak as its first few executives leave
  - Azerbaijan's **AIH** continues evolving and signed an MoU with **SK**
- *Jobs:* **ADIA** is still picking up Quants, **CPP** is seeking RE & Infra in Sydney, **GIC** is growing NYC and London and **Temasek** is expanding VC in SFO

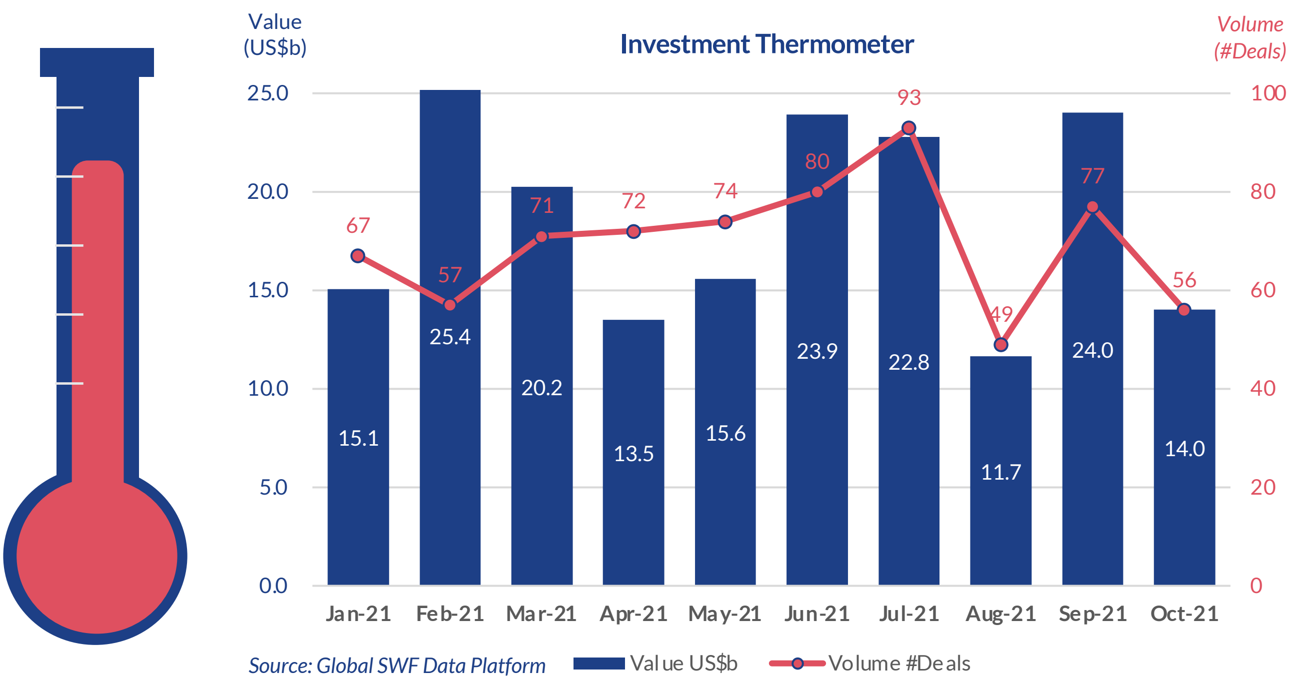
Most active SOIs in Oct'21

Fund	#Deals	Value ($b)
GIC	7	4.6
CDPQ	6	2.6
CPP	3	1.1
ADQ	5	1.0
PIF	3	0.9
OMERS	3	0.9
Mubadala	6	0.6
Temasek	8	0.5
AIMCO	4	0.5
ADIA	2	0.4
Others	9	1.0
Total Oct'21	**56**	**14.0**

Appointments at SOIs in Oct'21

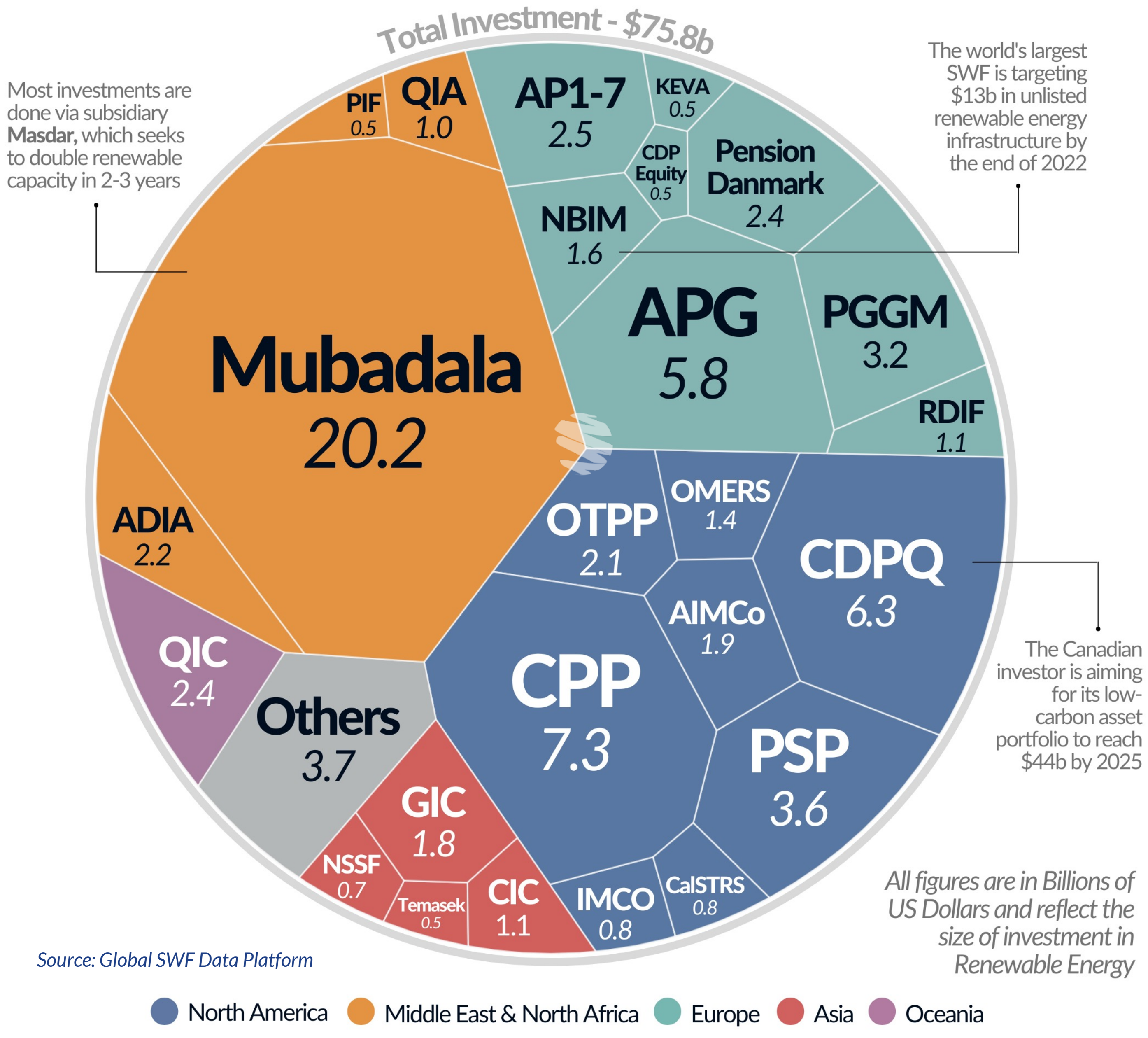
Fund	Position/s
ADIA	Quant R&D Lead
AusSuper	CEO
CalPERS	Head Equities
CPP	Chief Sustainability Officer
Dubai Hld	Finance Director
KIA	CEO Wren H., CTO KIO
Mubadala	CIO Waha
OMERS	MDs Infra
OTPP	CRO
PIF	Head of PE
SBA	CIO
Temasek	CEO
VFMC	CEO

Source: https://globalswf.com/activity



Source: Global SWF Data Platform

Infographic of the Month: Largest State-Owned Investors in Renewable Energy (private markets)



Investments in Renewable Energy are still inadequate and minuscule compared to the firepower of State-Owned Investors: SWFs have invested US$ 35.3 billion in 105 deals, and PPFs have deployed US$ 40.6 billion in 94 transactions. The efforts are bigger, in relative terms, in those organizations with dedicated programs, e.g. Mubadala's Masdar, or PensionDanmark's CIP.

However, the pace has been accelerating remarkably in the past seven years, with US$ 15 billion deployed so far in 2021, and we expect these figures to increase significantly in the near future as funds commit to ambitious green goals, e.g., CDPQ hopes to raise its "green portfolio" to US$ 44 billion by 2025 and NBIM aims to spend US$ 11.4 billion in the next 14 months. The latter has also a significant portfolio of green stocks, valued at US$ 11.8 billion as of December 31, 2020 (see list here).

In terms of regions, North America and Northern Europe continue to be the most popular destinations, thanks to a high level of opportunity and a positive regulatory environment, as well as the efforts of certain countries, such as the UK, around FDI. However, we expect the renewable energy industry to pick up in growth markets too, as SWFs push the domestic agenda.

Lastly, partnerships such as Cubico Invest (OTPP, PSP), Arevon Energy (ADIA, APG, CalSTRS) and co-investments such as Greenko Energy (ADIA, GIC) and Generate Capital (AP2, AusSuper, QIC) will be increasingly popular as the industry becomes hotter and sovereign investors seek to rely on external expertise to catch the green wave. Hopefully, the trend will endure.

Fund of the Month: PensionDanmark

PensionDanmark is one of Denmark's largest labor market pension funds, with US$ 49.9 billion in assets as of June 30, 2021. It is also known as one of the world's greenest investors, with US$ 3.7 billion invested and/or committed to unlisted renewable energy, and for having co-founded of the UN-convened Net-Zero Asset Owner Alliance (**NZAOA**). We had the immense pleasure of chatting with its CEO, **Mr. Torben Möger Pedersen**, who has led the fund since its establishment in 1993.

Mr. Torben Möger Pedersen, CEO of PensionDanmark

[GSWF] The Danish pension system is highly sophisticated with leading managers such as ATP and PensionDanmark. How do you compare it with the Dutch and Swedish systems?
[PD] In fact, Danish pensions have been recognized among the world's finest and work under define contribution (DC), just like the Canadian and Dutch systems. In the early 1990s, Denmark grouped all blue-collar workers under the same mandatory system. Since 2008, all workers pay 12%-15% of their salaries for pensions. We focus on the private sector employees including construction, drivers, etc., covering a total of 25,000+ employers, 400,000+ active members and 80,000+ pensioners.

[GSWF] How did PensionDanmark's assets grow from US$ 13.5 billion in December 2008 to US$ 49.9 billion in June 2021?
[PD] We have about US$ 2.5 billion of contributions every year, which has accelerated our growth. Along with the returns, pensioners can expect between 50% and 70% of their salary. Taxes are deferred in the sense that contributions are deductible, but distributions are taxed, which creates a sustainable financial ecosystem – for which we have been received several awards.

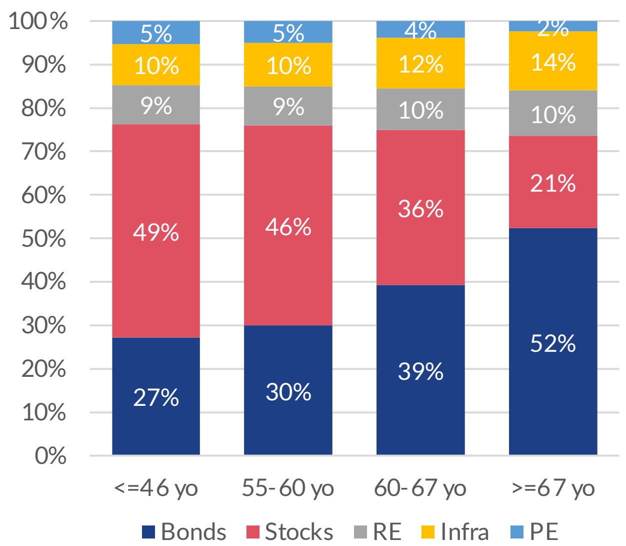
[GSWF] What is the difference in strategy between younger members (7.4% return) and older members (6.2% return)?
[PD] The allocation changes automatically according to their age group – for the younger members, it is riskier with equities, while the older members have safer products. Members can always opt out of the default allocation but in practice only 2% chose to do so.

[GSWF] Your unlisted green infrastructure assets represent 5.1% of your total portfolio. How much more will they grow?
[PD] We started our investments in green unlisted assets ten years ago to pursue higher returns, risk diversification and branding. Our first project went well, and we decided to increase our role – but most of it is channeled through Copenhagen Infrastructure Partners.

[GSWF] Copenhagen Infrastructure Partners has raised over US$ 16bn in four funds – what is the ultimate target?
[PD] In the beginning we were the only partners in CIP, but today we have more than 100 LPs from the US, Europe, Taiwan, and Australia. CIP has become of the world's largest investors in unlisted renewable infrastructure. We are still an anchor investor in the six funds but are happy to welcome other partners that give us scale and reputation. CIP is heavily investing in offshore wind floating platform – we use wind power from the sea as a substitute for the fuel and also as a means of decarbonizing society ("Power-to-X").

[GSWF] PensionDanmark left, UN-backed PRI in 2013 due to governance issues, and re-joined in 2019 – why?
[PD] Our issues of PRI were solved, and PRI is a central part of the NZAOA. We are very aware of other organizations seeking greenwashing with their memberships or actions. Therefore, at the Net-Zero Alliance, members need to commit to very specific goals around emissions reduction and sustainability by 2025 / 2030 etc. and if they don't meet them year-after-year, they need to leave.

Asset Allocation per age group



Source: PensionDanmark, Global SWF Analysis

[GSWF] You were one of the six founding members of the NZAOA, which has now 52 members – why is it important for other funds to join the net-zero pledge by 2050?
[PD] We were a founding member of NZAOA, and today there are 52 of us, and some more that will be announced at the COP26 in Glasgow in the next few days. As a group, we have decided to say no to "divestments", and yes to "engagements" – we at PensionDanmark are very small on our own but are bigger with the NZAOA group and can influence the economy substantially in a broader sense. Our employees push us as they want to work for a fund that pursues a better world.

[GSWF] You have hired over 100 employees in the past 5 years, increasing the headcount to c. 300. What is the reason behind this growth, and will it continue?
[PD] We have transitioned from a very outsourced organization to a more active investor. This fact, along with an increase of focus on private markets, has contributed to a larger pool of internal personnel. However, we are still the most cost-effective pension system in Denmark, which is among our objectives.

In-depth analysis: SWFs Commitments and Memberships around ESG

Paris-alignment was a hot topic ahead of the 2021 UN Climate Change Conference (COP26), which started yesterday in Glasgow, but SWFs have failed to commit to the targets of **Net Zero Asset Owners Alliance (NZAOA)** and the risk of *greenwashing* persists.

SWFs have joined other memberships instead, in exchange for a fee. However, some of these guidelines or principles are not enforceable and can result in diversion. As highlighted by **PensionDanmark**'s CEO, NZAOA is trying to do things differently: Members are forced to commit to very specific goals year after year, which may have caused a lower popularity among SWFs yet.

In July 2021, Global SWF's GSR Scoreboard highlighted that of the 153 SWFs in the world, 21% have an ESG risk framework. Eighteen SWFs are members of the **One Planet SWF group**, in which funds endorse the OPSWF Framework and its three principles and pledge to integrate climate change risks and invest in the transition to a Paris-aligned low emissions economy.

However, the lack of standardization of greenhouse gas auditing and reviews of progress towards targets makes judging OPSWF's real world impact difficult to measure. Some OPSWF members have retained significant carbon emitting assets, such as **Mubadala**'s weighty holdings in the oil and gas industry and midstream and downstream sectors. **NBIM** is no longer a member.

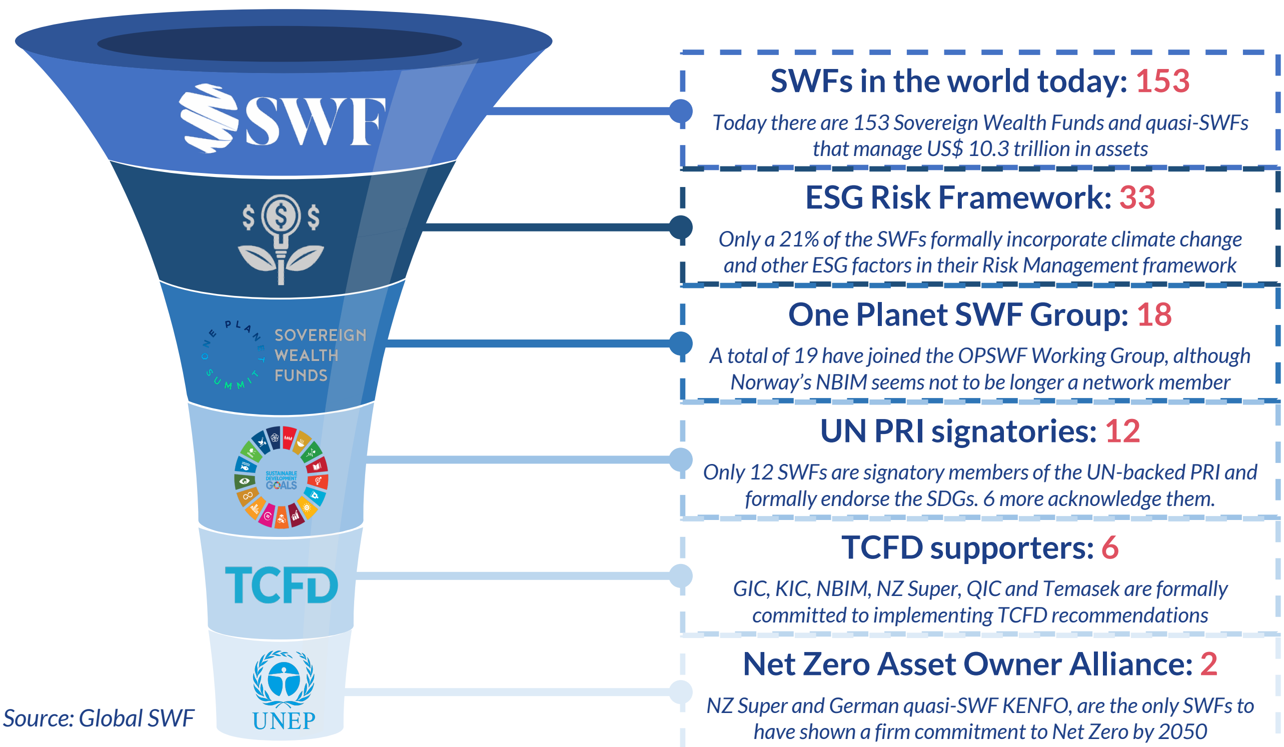
Just 12 SWFs have signed the **UN Principles for Responsible Investment (PRI)**, which include incorporation of ESG into decision-making and policies, disclosure of ESG issues, and progress reports. In the same fashion, there is no enforcement, reporting or assessment process for PRI signatories, many of whom have not yet fully integrated ESG into their decision-making process.

Six SWFs support the Financial Stability Board-sponsored **Task Force on Climate-related Financial Disclosure (TFCD)** recommendations. The TCFD framework involves a set of voluntary, consistent disclosure recommendations and is regarded by investors and governmental bodies as the benchmark disclosure guidance.

Just two funds, **NZ Super** (via the Paris Aligned Investment Initiative) and German quasi-SWF **KENFO** (via the Net Zero Asset Owner Alliance) have formally committed to Net Zero, including five-year targets for carbon reduction with net zero envisaged across the portfolio by 2050 or earlier. The group is notably more popular among PPFs than among SWFs.

But are targets in themselves useful in judging SWFs' real-world contribution to fighting climate change? For some funds with significant fossil fuel assets, the emphasis is on supporting the transition over exclusion. **Mubadala** and **Temasek** are among those seeking to reduce the carbon in their portfolios while maintaining their ownership of carbon emitters.

It is widely acknowledged that there is more work to do on standardization in the measurement of climate impacts by SWFs, but the push continues in the right direction. More funds are set to provide more meaningful reporting of their greenhouse gas emissions of their portfolio – and they may find that greater transparency and accountability could ultimately reap rewards.



Source: Global SWF

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Opinion: SWFs continue to bet on Hedge Funds

Sovereign investors use a variety of terms to define hedge fund investments, e.g., absolute returns, alternative assets, active global equities or public market alternatives, but they all represent an important part of the portfolio mix.

In 2016, several public pension funds including **CalPERS**, **NYCERS** and **ISBI** decided to drop their hedge fund programs due to excessively high management fees, compared to the returns they were generating for them. Today, the average allocation of PPFs has dropped to 1.2%.

In fact, **NYSCRF** recently confirmed that its ARS program had yielded a mere 3.5% p.a. in the last 10 years, compared to 9.2% of the overall fund. According to Hedge Fund Research Inc., the industry averaged a 4.6% p.a. in the 10 years ending on June 30, 2020 vs 12.5% p.a. of the S&P500.

However, SWFs have not stopped believing in diversification and potential benefits the asset class brings to the table, and have been increasing allocations at a slow but steady pace, from 1.0% in 2008 to 1.8% in 2021.

The largest allocators, by far, are **ADIA**, **CIC** and **Future Fund**, representing two thirds of all the capital allocated by SWFs to hedge funds. The Abu Dhabi fund employs 50+ staff in the asset class, plus it recently set up the 25-man strong science lab focused on AI and machine learning.

In terms of products, SOIs cover all well-known strategies: equity hedge, event-driven (including merger arbitrage), global macro (including active trading, commodity and currency), relative value, and fund of hedge funds (FoHFs).

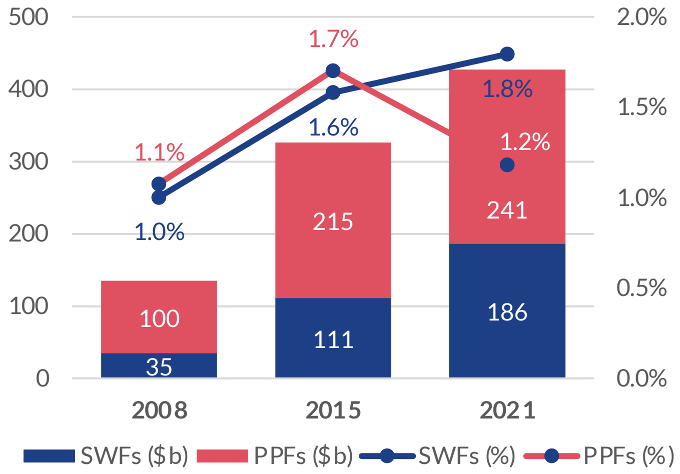
The most popular strategy at **NYSCRF** was tactical trading, followed by event-driven, structured credit and long-short. Its managers include the usual suspects such as Cowen IM, Tilden Park, Bridgewater and DE Shaw. The latter was paid US$ 70.4 million in management and incentive fees in FY21.

But hedge funds are not only popular among SOIs. The Top 25 investors ranking includes eight US endowment funds, led by **Harvard**, which allocates a third of its portfolio into the asset class, **UTIMCO**, and notably **Yale University**, which became a role model when its former CIO David Swensen started investing in HF, PE and VC in the 1990s.

It is difficult to predict what the future holds for hedge fund investing. While most SOIs seem to agree that private markets, including private equity and infrastructure, present a greater performance potential in the next few years, there does not seem to be a consensus about the benefits of having part of the portfolio invested in HFs.

On January 1, 2022, and without any lag in time, **Global SWF** will release its new annual report with predictions for the State-Owned Investment industry both in 2030 and 2050, including asset allocation. *Stay tuned.*

State-Owned Investors in Hedge Funds



Source: Global SWF Data Platform

Top 25 Hedge Fund investors

Investor	Country	Type	AuM ($b)	HF %	HF ($b)
ADIA	AE	SWF	829	7%	56.7
CIC	CN	SWF	1,222	3%	33.6
Future Fund	AU	SWF	185	13%	24.2
CPP	CA	PPF	419	5%	22.7
Harvard MC	US	END	53	33%	17.6
Texas TRS	US	PPF	164	8%	12.8
KIA *	KW	SWF	693	2%*	12.4
OTPP	CA	PPF	184	6%	11.5
EIA	AE	SWF	69	15%	10.5
CDPQ	CA	PPF	315	3%	9.7
PSP	CA	PPF	162	5%	8.9
QIA *	QA	SWF	366	2%*	8.7
UTIMCO	US	END	40	19%	7.6
GIC *	SG	SWF	744	1%*	7.4
Yale Uni	US	END	31	22%	6.7
PRINCO	US	END	27	24%	6.4
Stanford MC	US	END	29	21%	6.1
KIC	KR	SWF	201	3%	5.6
APG	NL	PPF	705	1%	5.5
Alaska PFC	US	SWF	82	7%	5.4
NYSCRF	US	PPF	255	2%	5.0
MITIMCo	US	END	18	25%	4.6
UPenn	US	END	23	19%	4.4
KEVA	FI	PPF	71	6%	4.3
Columbia IMC	US	END	11	33%	3.7

Source: Global SWF Analysis ** Estimated by Global SWF*

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