



Sovereign Wealth Funds Investing in Infrastructure

With sovereign wealth funds continuing to represent a significant source of capital for the infrastructure asset class in 2013, [Julia Goodall](#), [Amy Bensted](#) and [Graeme Terry](#) provide detailed insight into these investors, featuring data and analysis from the [2014 Preqin Sovereign Wealth Fund Review](#).

What are Sovereign Wealth Funds?

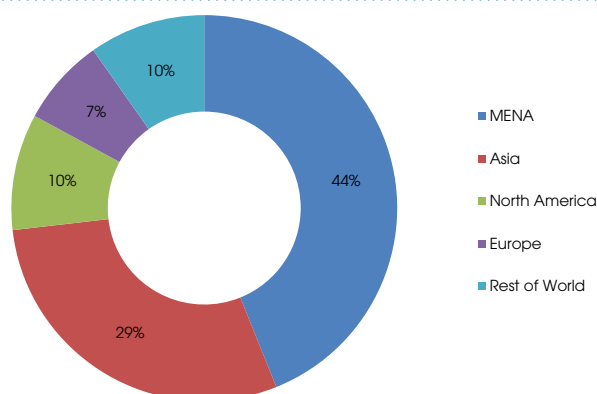
Sovereign wealth funds are investment funds owned by governments of sovereign states and funded by foreign exchange and reserve assets. They are generally funded by revenues accrued from the export of non-renewable natural resources, usually oil and other hydrocarbons taxed or owned by the government, or by transfers of reserves held by countries running current account and budgetary surpluses.

Sovereign wealth funds can be categorized by their longer-term investment horizons as well as their different objectives and, in general, lack of liabilities that need to be met, unlike pension funds. This allows them to take not only significant stakes in the funds and the securities they invest in, but also a long-term outlook when making an allocation. In fact, sovereign wealth funding can be the “stickiest” of all institutional investors, as they seek returns over long periods and do not divest in times of crisis.

Infrastructure Investment

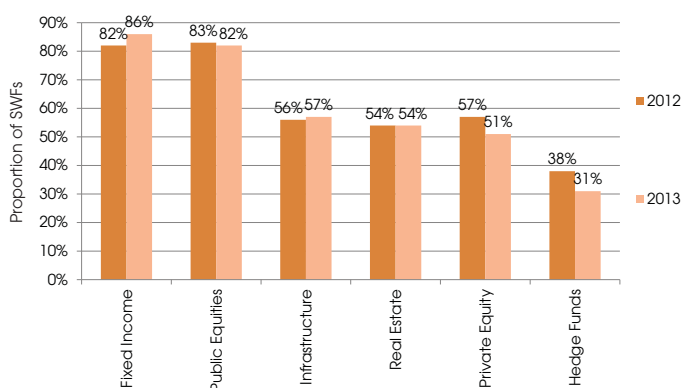
Alternative assets have become an important part of the portfolios of many sovereign wealth funds over recent years. The importance of infrastructure within these investors’ portfolios is demonstrated in Fig. 1, with 57% of sovereign wealth funds investing in the asset class in 2013, a slight increase on the 56% that did so in 2012. This is higher than any other alternative asset class, with 51% of sovereign wealth funds investing in private equity, 54% in real estate and only 31% in hedge funds. With many sovereign wealth funds established in order to build on and improve the existing infrastructure within their country or region, their interest in the asset class is unsurprising. Additionally, the commitment of these

Fig. 2: Breakdown of Sovereign Wealth Funds Investing in Infrastructure by Region



Source: 2014 Preqin Sovereign Wealth Fund Review

Fig. 1: Proportion of Sovereign Wealth Funds Investing in Each Asset Class, 2012 vs. 2013

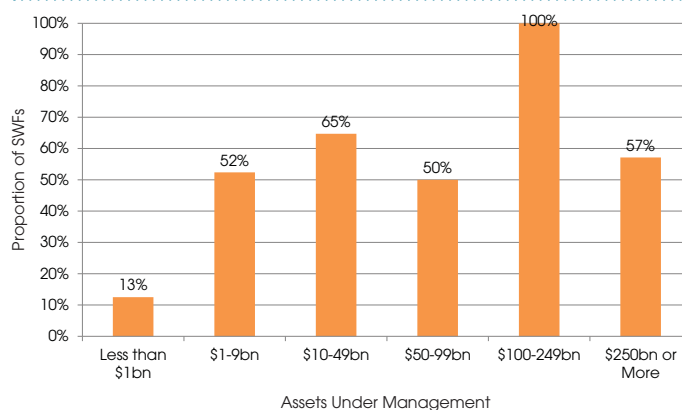


Source: 2014 Preqin Sovereign Wealth Fund Review

investors to the asset class is particularly notable when considering that 76% invest in infrastructure via a separate infrastructure allocation, whereas only 38% of all other investors in infrastructure have a dedicated allocation to the asset class.

Sovereign wealth funds are attracted to investment in the infrastructure asset class because of the benefit from the long-term and relatively stable returns that infrastructure assets can provide. Infrastructure investment is also an important factor in stimulating the domestic economy while developing their internal structures, which are key objectives of most sovereign wealth funds.

Fig. 3: Proportion of Sovereign Wealth Funds Investing in Infrastructure by Assets Under Management



Source: 2014 Preqin Sovereign Wealth Fund Review



Fig. 2 shows the regional breakdown of sovereign wealth funds investing in infrastructure. The largest proportion is based in the MENA region (44%), with a further 29% based in Asia and 10% based in North America. Notable sovereign wealth funds investing in infrastructure include Indonesia's Government Investment Unit, which has 80% of its total assets allocated to infrastructure. UAE-based Abu Dhabi Investment Authority maintains a 5% target allocation to infrastructure, amounting to just over \$19bn.

Proportion of Sovereign Wealth Funds Investing in Infrastructure by Total Assets

Fig. 3 shows the proportion of sovereign wealth funds investing in infrastructure based on their total assets under management. Seventy-five percent of sovereign wealth funds with at least \$100bn in assets include an allocation to infrastructure, whereas just 50% of sovereign wealth funds with less than \$100bn in assets invest in the asset class. Only 13% of sovereign wealth funds with less than \$1bn in assets include an allocation to infrastructure. The large capital requirements traditionally associated with direct investments in infrastructure projects means that those sovereign wealth funds with larger balance sheets have the resources to be able to access these types of investments.

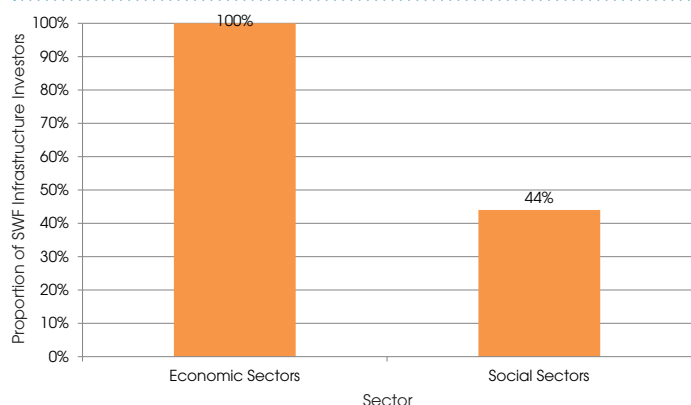
Preferred Method of Exposure to Infrastructure

Fig. 4 shows the preferred route to market of sovereign wealth funds actively investing in infrastructure. A significant 84% of these institutions invest directly, reflecting the high level of experience of, and the resources available to, the majority of sovereign wealth funds that allocate to infrastructure. Within this 84%, 34% will only invest directly, whereas the remaining 50% gain exposure through a mix of direct investments and commitments to infrastructure funds. Just 16% of sovereign wealth funds invest in the infrastructure asset class solely via commitments to funds, all of which target unlisted infrastructure vehicles.

Investor Appetite by Sector

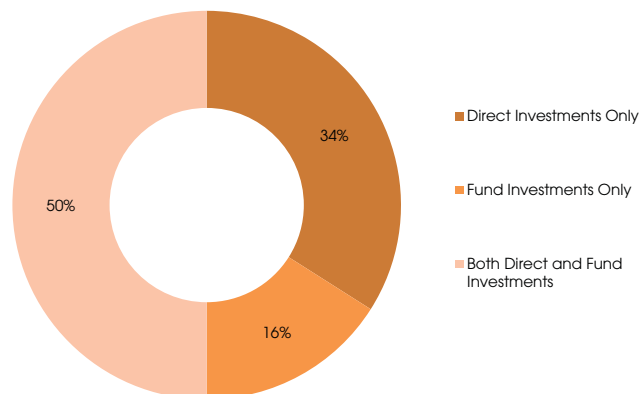
As shown in Fig. 5, all of the sovereign wealth funds currently investing in infrastructure will invest in economic infrastructure sectors. Economic infrastructure, and particularly the core sectors tend to be the most common industry-wide, and this is reflected here. Eighty-five percent of sovereign wealth funds actively

Fig. 5: Proportion of Sovereign Wealth Funds Investing in Infrastructure that Invest in Economic and Social Sectors



Source: 2014 Preqin Sovereign Wealth Fund Review

Fig. 4: Preferred Method of Exposure to Infrastructure of Sovereign Wealth Funds Investing in the Asset Class



Source: 2014 Preqin Sovereign Wealth Fund Review

investing in infrastructure target the energy sector, while 73% invest in transportation assets, 65% in utilities, and 53% in the telecommunications industry. Just under half (44%) of sovereign wealth funds investing in the infrastructure asset class will consider opportunities in social sectors such as schools and hospitals.

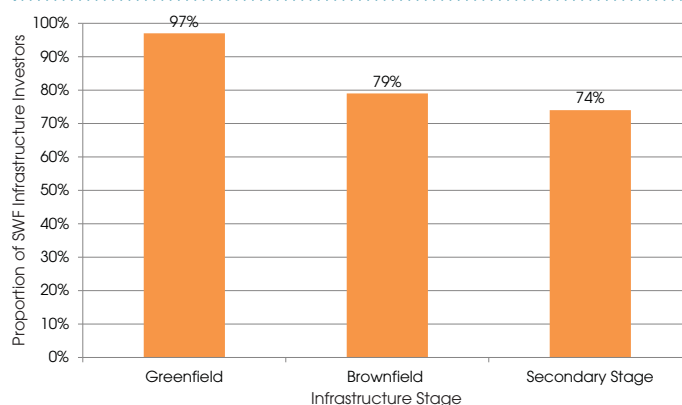
Infrastructure Appetite by Project Stage

The vast majority of sovereign wealth funds investing in infrastructure pursue greenfield stage assets, with 97% open to such projects. As shown in Fig. 6, 79% of sovereign wealth funds will invest in brownfield stage infrastructure projects, while 74% will invest in more mature and developed secondary stage assets. For diversification purposes, sovereign wealth funds will commonly invest across all three stages of the development spectrum in order to avoid concentration issues.

Outlook

Infrastructure remains an important component for a typical sovereign wealth fund's investment portfolio, with more than half of these investors currently including an allocation to the asset class. The long-term nature of the infrastructure asset class and the strategic goals of many sovereign wealth funds make infrastructure a good match for these institutions. Although the proportion

Fig. 6: Proportion of Sovereign Wealth Funds Investing in Infrastructure that Invest in Greenfield, Brownfield and Secondary Stage Infrastructure



Source: 2014 Preqin Sovereign Wealth Fund Review



of sovereign wealth funds actively investing in infrastructure has remained relatively constant in the past 12 months, it is encouraging that many of these institutions are expanding their infrastructure portfolios both internationally and domestically. This trend is expected to continue in the future as demand for investment in private infrastructure grows.

Fig. 7: 10 Notable Sovereign Wealth Funds Investing in Infrastructure

Investor	Location	Assets under Management (\$bn)	Geographic Preferences	Preferred Route(s) to Market
Abu Dhabi Investment Authority	United Arab Emirates	627	Global	Listed, Unlisted, Direct
China Investment Corporation	China	575	Global	Unlisted, Direct
Dubai World	United Arab Emirates	100	Global	Direct
GIC	Singapore	248	Global	Unlisted, Direct
Kuwait Investment Authority	Kuwait	300	Global	Listed, Unlisted, Direct
National Social Security Fund - China	China	180	China	Direct
Qatar Investment Authority	Qatar	115	Global	Listed, Unlisted, Direct
Samruk-Kazyna	Kazakhstan	92	Kazakhstan, Central Asia	Direct
State Administration of Foreign Exchange	China	568	Global	Direct
Temasek Holdings	Singapore	255	Asia, Australasia	Listed, Unlisted, Direct

Source: 2014 Preqin Sovereign Wealth Fund Review

2014 Sovereign Wealth Fund Review

The [2014 Sovereign Wealth Fund Review](#) features full profiles for all sovereign wealth funds, showing investment plans and preferences in the following areas:

- Public Equities
- Fixed Income
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2014 Preqin Sovereign Wealth Fund Review

The [2014 Preqin Sovereign Wealth Fund Review](#) is our largest and most comprehensive review yet of sovereign wealth funds and their investment activity. Our guide, which has been completely updated and expanded to include new information on every area of sovereign wealth fund investment portfolios, is indispensable for anyone looking to find out more about these secretive investors. Produced in association with PwC, this year's edition has more content than ever before, and features full profiles for 72 sovereign wealth funds worldwide.

Highlights of this year's edition include:

- Overview of the sovereign wealth fund market.
- Key insights into SWF activity from PwC.
- Separate analysis sections identifying all key trends and patterns for sovereign wealth fund activity in each asset class.
- League table of top sovereign wealth funds by total assets.
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