Sovereign wealth funds in Spain and Latin America: Spain's consolidation as an investment destination

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Introduction

This past year Spain was once again in the sights of sovereign wealth funds. In 2011, whilst Spain was going through the worst point of the worst economic crisis since the democratic transition, sovereign wealth funds placed their bets on our country's companies. In that year, which had been preceded by two years of recession and was to be followed by another two of negative growth rates, International Petroleum Investment Corporation (IPIC) bought Total's shareholding and became the 100% owner of Cepsa. Now, the Norman Foster building, which dominates Madrid's Castellana, houses Cepsa's headquarters and has been renamed Cepsa Tower; IPIC also has a purchase option on this property –an icon of twenty-first century Madrid. This is an eloquent symbol of the growing presence of sovereign wealth funds in Spain's economy and companies.

Three years later, in 2014, sovereign wealth funds continue to bet on Spain. The world's largest sovereign wealth fund, Norway's Government Pension Fund Global (GPFG), with assets under management of nearly $900 billion, is one of the funds that best reflects this improved outlook for the Spanish economy. Its investment in Spanish government debt has changed pro-cyclically (a strategy that contrasts with that of other funds which do maintain long-term investment policies, as we shall see). Thus in 2012, the Norwegian fund reduced its exposure to Spanish government bonds by 70%, to €715 million. One year later, GPFG had investments of €3.35 billion, an increase of 369%. At the end of 2014, the upward trend was continuing, with an investment in Spanish sovereign debt of €5.13 billion, an increase of 53%. Spanish government bonds are the Norwegian fund's seventh most preferred investment (see Table 1). It should be remembered that in 2012, Spain was in 40th position, rising to 12th in 2013, and at the end of 2014 it already formed part of the exclusive top ten, ahead of Brazil, South Korea and the Netherlands, and only just behind Mexico.

The news however does not concern only sovereign investors at the top of the ranking tables. Other, smaller sovereign wealth funds have taken positions in Spanish companies in 2015 or have initiated new collaboration agreements that put Spain on their investment radar. For example, 2015 will be remembered as the year in which Spain matched other European countries and established a co-investment agreement with the State General Reserve Fund of Oman. This kind of agreement, as we shall see, has been employed for some years already in Italy, France, Ireland and Belgium. The setting up of this kind of agreement, which in the case of Spain was signed by COFIDES (Spain's Development Finance Company, a public-private enterprise), represents a clear opportunity for establishing close and durable relationships with sovereign wealth funds. In 2012, the first report in this ESADE-KPMG-ICEX-Invest in Spain series already recommended the possibility of co-investing with these players in sectors where Spanish international cooperation could represent significant added value. Two years later, in 2014, we recommended the specific creation of bilateral funds, and in 2015, in line with the European trend we captured, this has come about in the form of this first fund of €200 million with the SGRF of the Sultanate of Oman.

Table 1

Exposure of the Norwegian fund GPFG to sovereign debt (Top 10)

Ranking	Country	Value (NOK)	Value (USD)
1	United States	422,199,852,096	56,311,708,771
2	Japan	186,044,385,997	24,814,024,047
3	Germany	84,020,597,296	11,206,407,066
4	United Kingdom	76,340,668,494	10,182,081,946
5	Italy	52,368,847,860	6,984,794,748
6	Mexico	47,306,873,893	6,309,644,336
7	Spain	46,730,783,514	6,232,807,186
8	Brazil	43,504,577,232	5,802,505,783
9	South Korea	41,106,995,075	5,482,723,700
10	The Netherlands	37,120,857,558	4,951,065,022

Source: The author, with data from Norges Bank Investment Management, NBIM (2015)

Apart from this, we should point out that after years of drought as far as Kuwaiti investment in Spain is concerned, in 2015 we have seen significant transactions in the Spanish energy sector, with acquisitions of assets in E.ON in Spain and Portugal (a co-investment transaction which we will analyse in detail) and Gas Natural Fenosa. Through various investment arms, Kuwait Investment Authority is once again taking equity positions in companies established in Spain. Furthermore, as we mentioned in last year's Report, its investment in Madrid start-up Tyba was also notable, and showed Kuwait's potential as a sophisticated investor.

Moreover, Spain is once again present in the countries receiving the largest investments in the real estate sector. Foreign investments and the incorporation of new SOCIMI (similar to real estate investment trusts, REITs) have marked the trend in a sector that is now recovering from the collapse that followed the bursting of the bubble. We analysed this trend and the Spanish real estate sector's relations with the sovereign wealth funds and other institutional investors.

Spain: Notable investments of 2014-2015

The main transactions since the last Report was published in 2014 have been concentrated in energy companies: E.ON decided to divest its assets in Spain and Portugal, which were acquired by a consortium formed by KIA (through its subsidiary Wren House International Management) and the Australian giant Macquarie. KIA also acquired through Wren House 25% of Global Power Generation, the subsidiary of Gas Natural Fenosa dedicated to international generation, for €485 million. Gingko Tree Investments, the European investment arm of China's SAFE (State Administration of Foreign Exchange), also took part together with a Canadian pension fund (PGGM) and France's EDF Invest in the purchase of Madrileña Red de Gas from Morgan Stanley, in a transaction valued at €1.25 billion, not counting the debt assumed by the new owners of Spain's third biggest distributor of natural gas[1]. Both investments in energy and distribution fit within the dual financial and strategic logic that we have dealt with on other occasions and which we shall develop presently. Mubadala established a joint venture with commodities trading house Trafigura which includes 50 per cent share in Trafigura's Minas de Aguas Teñidas (Matsa) valued at €447[2]. Moreover, Globalvia, the infrastructure concessionaire held 50-50 by Bankia and FCC, was targeted by Khazanah Nasional, Malaysia's sovereign wealth fund, for an estimated €420 million. Finally, the transaction was aborted when Globalvia's creditors exercised their preferential right to buy its shares and took over the company. Another noteworthy transaction was the entry of GIC of Singapore as a shareholder in GMP, a real estate investment company now converted into a SOCIMI (REIT), paying €200 million for a 30% stake in the private family-held group. Also of note was the investment by ADIA (Abu Dhabi Investment Authority) in airport operator AENA, in which it now holds a 1.3% stake valued at €120 million (See Table 2).

The energy (distribution), construction, infrastructure and real estate sectors have thus been sovereign wealth funds' main sectors of interest in the past few months. To these must be added the investments by Qatar in Colonial (and its French subsidiary Société Foncière Lyonnaise), by GIC in Applus+ and by Katara Hospitality (the Qatar Investment Authority's "hotel" arm) to acquire the Hotel InterContinental in Madrid (cases already explained in the 2014 Report).

Direct investments by sovereign wealth funds in Spanish companies since January 2014 total €4.6 billion. As sovereign wealth funds continue to extend their presence in Spain, new players arrive, old ones return, and in general Spain is consolidating its position as an attractive destination for global sovereign investment: Norway, the Middle East (Kuwait, Qatar, Oman, United Arab Emirates) and Asia (China, Singapore and Malaysia) have targeted Spain as an attractive investment destination in this period, and all the signs point to their continuing to do so in the medium term. This interest is explained by the economic recovery and the perception of both Spain and Spanish companies as being solvent. It is further reinforced by other factors, such as the euro/dollar exchange rate, instability in other regions of the world (North African tourist destinations affected by recent acts of terrorism) and other parts of Europe (the contrast with Greece may prevent populism in Spain exceeding present levels). All these considerations, together with the quest for profitability over and above current very low fixed interest rates, make Spain one of the most attractive countries in Europe for sovereign investment.

The logic of the active investor: Kuwait makes a comeback

Kuwait has started investing again in Spain, through Wren House Infrastructure Management (WHI). In December 2014 it invested together with the infrastructure fund Macquarie in E.ON, acquiring the German energy company's Spanish assets. The transaction, valued at €2.5 billion (including debt), has a very interesting strategic spin-off. KIA is thought to have contributed €1 billion to the transaction . The strategic co-investment dimension follows a similar logic to that of IPIC with Cepsa.

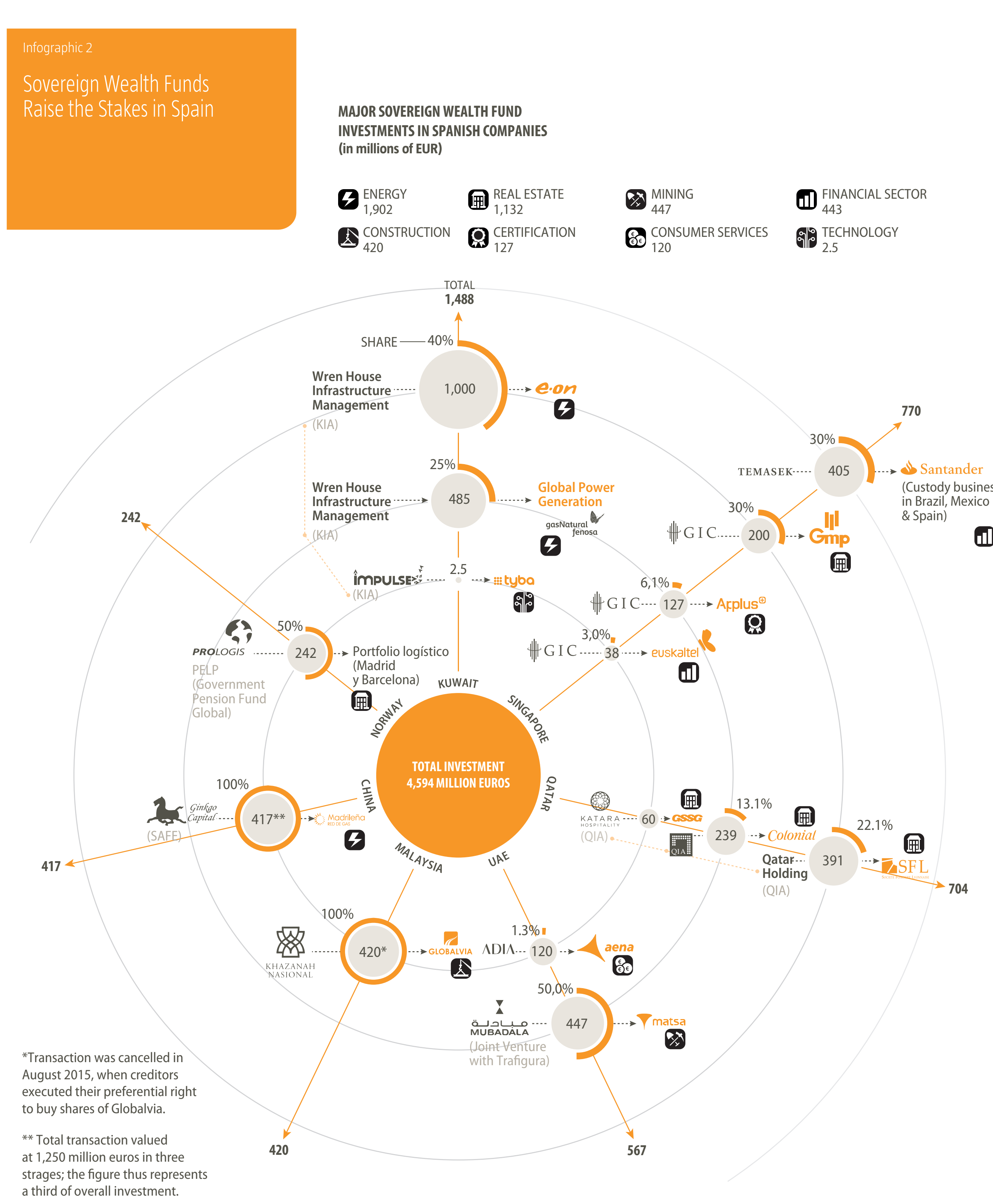
In April 2013 Macquarie, which manages $375 billion, closed the Macquarie European Infrastructure Fund 4 (MEIF4), following the success of its three previous European funds which involved the acquisition of airports in Brussels and Copenhagen, telecommunications infrastructure in the Czech Republic and water utilities such as Thames Water in the U.K.[3] With the support of WHI, the MEIF4 fund made a more attractive offer for E.ON's Spanish assets than that made by Gas Natural together with Morgan Stanley. As we showed in the 2014 and 2013 Reports, sovereign wealth funds are increasingly participating in consortia for co-investment in infrastructure. This ability of sovereign wealth funds to

[1] The official sources have not disclosed details of the transaction, but the data agree with what the Wall Street Journal says at http://www.wsj.com/articles/dutch-pension-manager-chinas-gingko-tree-near-deal-for-madrilena-red-de-gas-1429633638

[2] Figures weren't disclosed, and Financial Times estimates in $500m http://www.ft.com/intl/cms/s/0/44ceaa74-1e37-11e5-aa5a-398b2169cf79.html#axzz3fxEC1Fwx whereas Expansion values it at €600m http://www.expansion.com/empresas/energia/2015/06/29/559121cdca4741bd708b4580.html

[3] Complete information at https://www.macquarie.co.uk/mgl/uk/meif/

4. Sovereign wealth funds in Spain and Latin America: Spain's consolidation as an investment destination



Source: Elaboration of the author with data from web sites, news reports and the European Commission. Transaction including other investors only display the Sovereign Fund's share.

Table 3

Sovereign wealth funds' main direct investments in infrastructure (2014-2015)

Asset	Country	Industry	Investor(s)	Volume ($M)	Stake (%)	Date
Queensland Motorways	Australia	Toll motorways	**Abu Dhabi Investment Authority,** AustralianSuper, Transurban Group	6,518	100	Apr-14
3B Power Plant	Malaysia	Nuclear power station	**1Malaysia Development Berhad,** Mitsui & Co - Innovation & Corporate Development Business Unit	3,230	100	Feb-14
E.ON Spain & E.ON Portugal	Spain & Portugal	Energy distribution	Macquarie (MIRA4), **Wren House Infrastructure (KIO-KIA)**	3,112	100	Dec-14
Madrileña Red de Gas	Spain	Energy distribution	PGGM, **Gingko Tree Investment (SAFE)** and EDF Invest	1,250	100	Apr-15
RetireAustralia	Australia	Old age homes	Infratil, **New Zealand Superannuation Fund**	544	100	Dec-14
Global Power Generation (Gas Natural Fenosa)	Spain	Energy	**Wren House Infrastructure Management (KIA)**	528	25	Mar-15
Neptune Stroika Holdings	Philippines	Healthcare/Hospitals	**GIC**	85	14	May-14

Source: In-house, with data from the funds' websites and Preqin (2015).

establish themselves as investment partners of more sophisticated managers has been made possible by the gradual recruitment of more talent to their governing bodies[4]. KIA is no exception: it established WHI in 2013 under the management of Hakim Drissi Kaitouni, who had previously been with BoA Merrill Lynch and has experience in mergers and acquisitions, renewable energy, utilities, airports and ports. A very different background to that of the somewhat amateurish teams that characterised KIO's investments in the 1980s.

Macquarie and WHI are already turning E.ON Spain around. They have started by going back to the (pre-E.ON) Viesgo trade name to launch the strategic plan of this electricity company, which formed the bulk of E.ON's assets in Spain. The plan envisages investments and acquisitions. Viesgo is currently Spain's fifth biggest electricity supplier, with 4,150 MW installed capacity between conventional and renewable energy. As well as Viesgo, Macquarie and WHI manage wind farms, combined cycle stations and coal-fired power stations[5]. It would not be surprising if, together with the specialist impetus of Macquarie, we were to see Viesgo grow significantly, entering markets for which governments hold the door keys, as is the case with countries in the Middle East.

In addition to this transaction, in March 2015 WHI acquired 25% of Global Power Generation (GPG), a subsidiary of Gas Natural Fenosa (GNF), this time carrying out the capital increase alone. The transaction, worth €485 million, enables GNF to underpin GPG's international expansion together with an expert partner, just a few months after the subsidiary's October 2014 incorporation. GPG, which was established to drive GNF's overseas power generating activities, holds GNF's power generating assets in Mexico, Costa Rica, Puerto Rico, the Dominican Republic, Panama, Kenya and Australia[6].

WHI is a good example of the process of increasing management sophistication that the funds are going through. This is coming about both through the recruitment of specialist teams, as we have mentioned, and through the learning process that comes from alliances with investors with expertise in specific sectors. In this regard, WHI forms part of the group of sovereign wealth funds that have co-invested together with specialist infrastructure funds in 2014 (see Table 3). In total, more than €15 billion was invested in seven co-investment projects (5) or solo investments (2). The "learning" rationale combines with risk sharing. The giant Abu Dhabi Investment Authority, in alliance with two local groups,

[4] See the recent article by Aguilera, R., Capapé, J. and Santiso, J. "Sovereign Wealth Funds: A Strategic Governance View" to be published by the magazine Academy of Management Perspectives. Available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2612813.

[5] See http://economia.elpais.com/economia/2015/06/10/actualidad/1433961444_880609.html

[6] More information from GNF's press release http://www.gasnaturalfenosa.com/es/sala+de+prensa/noticias/1285338473668/1297274826890/gas+natural+fenosa+y+kia+a+traves+de+wren+house+se+asocian+para+desarrollar+proyectos+de+generacion+internacional.html

acquired Queensland Motorways, a concessionaire whose toll-roads carry 81 million vehicles a year. This transaction fits well within the "learning" strategy, which involves taking equity stakes alongside local experts and avoiding direct control of assets involving operational complexity.

The transactions of New Zealand's NZSF and Singapore's GIC have a strategic component that is characteristic of sovereign wealth funds: investments in sectors with long-term "guaranteed" returns. We refer to two investments based on two unstoppable demographic trends: the aging populations of Australia and New Zealand, and the rise of the middle class in the Philippines. NZSF acquired the fourth biggest operator of old age homes in the region, and GIC took a significant equity stake in the Philippines' most exclusive hospital operator. NZSF's investment was made against the background of population projections for Australia and New Zealand according to which between 25% and 30% of the population will be over 65 years old by 2040, when the baby-boomers will be 80-85 years old, which can be expected to lead to increased demand for this kind of service and care. For these reasons it made sense to acquire RetireAustralia. GIC followed a similar rationale: The Philippines has one of the world's fastest growing economies. GDP per capita is expected to double in the next ten years; a more affluent population tends to demand a better healthcare system. This explains why GIC has taken a 25% stake in the leading private hospital operator, which caters mainly to the emerging Philippine middle classes. In both cases, the sovereign wealth funds' patient capital sown today may yield abundant harvests in the medium and long term. Furthermore, developing alliances with local investors enables them to obtain specific know-how, fertilising these investments so that future harvests and profitability are increased. Indeed, the growing financial sector in Latin America, explains why Temasek participated along with Warburg Pincus in the acquisition of Santander's global custody business. The deal, subject to legal and regulatory approvals, enables the Singaporean investor to access key markets in Spain but especially priority access to Brazil and Mexico, where Temasek has already established international offices (Mexico DF and Sao Paulo). These investment strategies form part of the new long-term capitalism of which sovereign wealth funds, pension funds included, are obvious exponents.

Khazanah: new players in Spain.

Khazanah Nasional Berhad is a Malaysian fund established in 1993. It manages $41.6 billion and calls itself the "strategic investment fund of the Government of Malaysia". Khazanah devotes itself to nurturing and driving various strategic industries in Malaysia with a view to building an economically stronger nation, as well as undertaking investments beyond its borders. It is currently invested in more than 50 companies, some of which are veritable national champions. Additionally, as in the case of Temasek, Khazanah acts as the holding company for government-linked companies; its challenge in this role being to maximise the value of its holdings, in many cases with a view to subsequent disposal. Leading regional companies such as Axiata (telecommunications), UEM (infrastructure and construction), IHH Healthcare (one of the world's biggest private healthcare providers by market capitalisation) and CIMB (a universal bank), are some of the major companies in which Khazanah has a shareholding (major in the case of Axiata, IHH and CIMB, sole in that of UEM).

Khazanah was about to acquire Globalvia, the international infrastructure concessionaire owned 50/50 by Bankia and FCC. Globalvia was established in 2007 and has motorways abroad (19 tollways in 7 countries), eight rail concessions, two hospitals and two ports. Khazanah expected to pay a total of €420 million for Globalvia, allowing Bankia and FCC to continue with the divestment plan they have established. For Bankia, the transaction allows it to continue the divestment of industrial holdings to which it was committed as part of the bank bailout; for the construction company, the deal enables it to complete the adjustment plan started in January 2014 which has put FCC back in the black[7]. The transaction is still in doubt because Globalvia's creditors (Dutch, Canadian and UK pension funds, owed €750 million) have an option exercisable in 2017 to convert the debt into shares, which would dilute the Malaysian holding[8]. The outcome of negotiations on this point determined the failure of the transaction[9].

If this transaction had take place, Khazanah had been added to the list of sovereign wealth funds with a presence in Spain. Malaysia's arrival in Spain is hardly surprising. Beyond the "Visit Malaysia" emblazoned on Sevilla footballers' shirts to the tune of €2 million a year[10], the 2013 Report pointed to the possibility of extending the hospital business of Khazanah's subsidiary IHH, (already present in Turkey) to Spain. In fact it would not be surprising if the transaction started with Globalvia (which as well as operating motorways also has two hospitals) were to lead to future acquisitions in the Spanish hospital sector the Malaysian fund, which has experience in this field.

[7] With information from Europa Press, 13 May 2015 at http://www.europapress.es/economia/noticia-fcc-bankia-preven-cerrar-venta-globalvia-mes-20150513142931.html

[9] With data from Expansión, 1 July 2015, which talks of the transaction's being closed at €420 million, http://www.expansion.com/empresas/inmobiliario/2015/07/01/5593919822601de2188b456d.html

[10] See the chapter dedicated to football in this Report.

Table 4

Government Pension Fund Global: top ten investments in Spanish listed companies

Name	Sub-Industry	Value (€ millions)	% Voting rights	% Share capital
Banco Santander SA	Banks	1,477.60	1.68	1.68
Telefónica SA	Telecommunications	960.68	1.74	1.74
Iberdrola SA	Electricity and Gas	874.29	2.45	2.45
Banco Bilbao Vizcaya Argentaria SA	Banks	671.00	1.39	1.39
Inditex SA	Textiles, Clothing and Footwear	665.67	0.90	0.90
Ferrovial SA	Construction	259.91	2.17	2.17
Repsol SA	Petroleum	208.72	1.00	1.00
Banco de Sabadell SA	Banks	200.27	2.26	2.26
Amadeus IT Holding SA	Electronics and Software	196.21	1.33	1.33
Gas Natural SDG SA	Electricity and Gas	182.29	0.88	0.88

Source: in-house, with data from Norges Bank Investment Manager as at 31 December 2014 (nbim.com)

The Norwegian fund: greater presence, increasing demands

At the end of 2014, GPFG, Norway's sovereign wealth fund and the world's biggest, with nearly $900 billion under management and stakes in 9,134 companies around the world, had investments in Spanish listed companies valued at €8,569 million. The companies with the biggest investments from the fund, which is managed by Norges Bank Investment Management, the asset management arm of the Norwegian central bank, are Santander, Telefónica, Iberdrola, BBVA and Inditex (Table 4).

Last year[11] we looked at the role that sovereign wealth funds can play in improving the governance of the companies in which it invests. Given the size of the transactions involved, they quite often take significant and indeed decisive positions in companies. For years, the funds elected not to take part in the management of the companies, adopting a passive shareholder stance.

However, starting with the GPFG, this trend is changing. One symptom of this change is the strategy recently deployed by GPFG of announcing in advance how it intends to vote on the agenda items of the AGM. GPGF, which has had an Ethics Committee since 2004, has decided to act in this way with companies in which it has a considerable ($1 billion) investment, and with other companies on (basically ESG) matters that it considers important. By means of this strategy of announcing its voting intentions in advance, it aims to persuade other institutional investors to join forces in voting at AGMs. On 15 April, 2015, given the weight of its shareholdings in oil companies Royal Dutch Shell ($4.33 billion) and BP ($2.5 billion), GPFG announced its intention of voting on matters relating to the environmental impact reports; in the case of US electrical power company AES Corporation the intention to vote concerned a matter of governance: the inclusion of an internal company regulation allowing shareholders to nominate candidates for seats on the board of directors in addition to those proposed by the board.

In the case of Spain, the Norwegian fund's Ethics Committee has not determined the need to announce its voting intention in advance in any case. Nor has any Spanish company been excluded from GPFG's investment universe. However, the effects of its "active shareholder" strategy can be clearly seen in the voting at Spanish companies' AGMs. It has voted in the AGMs of 70 Spanish listed companies (and in 10,500 shareholders' meetings worldwide in 2014 alone). In accordance with its principles as a responsible investor, GPFG voted against numerous proposed resolutions on the re-election, change or appointment of directors. For example, among IBEX 35 companies it voted against the re-election of chairmen and CEOs; it also voted against the reappointment of auditors and opposed en bloc the re-election of entire boards in specific. However, by no means all its interventions are confrontational, as demonstrated by its full support for the management teams of other firms included in IBEX 35.

[11] See Capapé and Guerrero, "Equity investments of Norway's GPFG: a European sovereign wealth fund for Europe" in the 2014 ESADEgeo-KPMG-ICEX Report, available at http://itemsweb.esade.edu/wi/Prensa/SWF2014_ENG.pdf

4. Sovereign wealth funds in Spain and Latin America: Spain's consolidation as an investment destination

It remains to be seen whether other sovereign wealth funds will gradually join this new wave of responsible investment. Perhaps, for other funds that are less sophisticated and have fewer capabilities in terms of human resources or internal organisation (ethics committee, regulations, procedures, producing reports backing up every decision, etc.), the easiest course will be to follow the leader. If a herd instinct were to take over among "responsible" institutional investors as regards certain ESG matters, it might strengthen principles and standards, but it might also lead to turbulence in listed or private companies that could increase market volatility. Pre-announcement policies such as that adopted by GPFG through its manager Norges Bank Investment Management, and a declaration of "good will" as included in the IFSWF's Santiago Principles, may soften any adverse side effects of well-intentioned actions by responsible investors and thus reduce the risk of political aims going beyond ESG standards.

Sovereign wealth funds and technology

For countries dependent on natural resources, transforming the production basis is a common challenge. In many countries, sovereign wealth funds have been put in charge of channelling governments' investments into developing new manufacturing sectors, attracting technology and talent and developing projects with greater added value. One of the areas on which the United Arab Emirates have placed most emphasis is the renewable energy sector. This is demonstrated by the founding of Masdar, a designer city created by Foster + Partners, the practice set up by Norman Foster, winner of the Pritzker Architecture Prize. Masdar, surrounded by desert, is powered exclusively by renewable energy and houses innovation and development centres, numerous laboratories and clean energy start-ups. Masdar comes under the umbrella of Mubadala, a public investment and development company of the government of Abu Dhabi which is difficult to classify in view of the high degree of operational involvement in its investees. As part of the effort to attract the best technology in the world, Masdar establishes agreements with some of the world's most innovative companies in the field of clean energy. In this context, it has established a joint venture with the Spanish engineering company Sener, called Torresol Energy, which has three concentrated solar energy plants. In 2008 it signed a collaboration agreement with Indra, with a view to developing joint projects. As a continuation of this link between engineering and the Emirate, in January 2015, Masdar Institute and Spain's Abengoa signed a research agreement. The purpose of this research project is to improve the yield and productivity of desalination plants, and to reduce the volume of discharge generated, improving the environmental sustainability of the process[12].

[12] For further details, see Abengoa's website http://www.abengoa.es/web/es/noticias_y_publicaciones/noticias/historico/2015/01_enero/abg_20150127.html

The real estate sector continues to arouse the interest of sovereign wealth funds

It is hardly news for anyone that in the past two years Spain's real estate sector has become one of the preferred destinations for international investment funds. Having come through a period of withdrawal, driven by both internal and external demand, they are now bolstering the sector's recovery.

In Spain, three SOCIMIs (real estate investment companies) are already listed in the stock exchange: LAR Spain, Merlin Properties and Axiare Patrimonio[13]. A further five[14] are listed on the MAB Alternative Market. Created in 2009, and revised in 2012, the SOCIMI (similar to a REIT) has constituted a key mechanism for facilitating investment in properties and logistics, both for the major Spanish family offices and as an entry point for international investors. The market accelerates every time a high profile investor enters a SOCIMI, and with specialisation. Blackstone has set up Fidere, listed on the MAB; Merlin Properties has acquired Testa from Sacyr for €1,793 million.[15] The merger of Testa and Merlin creates a giant, with assets valued at around €5.5 billion and a market capitalisation of some €4.4 billion. Hispania Activos Inmobiliarios was set up not as a SOCIMI but as a property company, although it is envisaged that it will convert to a SOCIMI in the future. International investors have entered Hispania through their usual investment vehicles; such is the case of George Soros, who injected €92 million, and John Paulson, whose holding is estimated at €124 million. Hispania in turn offered to buy Realia, which is 25% held by Mexican magnate Carlos Slim, who recently responded with a counterbid for 62% of Realia. Carlos Slim is in fourth place on the daily list of billionaires published by Bloomberg, George Soros is in 24th and John Paulson in 113th place.

In the logistics segment alone, 2014 was a record year for property investment in Spain, with investment transactions valued at €620 million and more than 690,000 m2 of floor space contracted in Madrid and Barcelona. The sector has revived thanks to SOCIMIs (REITs) such as Merlin and Axiare and major international funds such as Blackstone and TPG and their respective Logicor and Almindus platforms."[16] In this regard, Prologis European Logistics Partners (PELP), a 50-50 joint venture between Prologis and Norges Bank Investment Management (NBIM) acquired 150,000 m^2 logistics facilities in Madrid and Barcelona to SABA Parques Logísticos. Deal was valued at €240 million.

[13] See the listing on BME (Bolsa y Mercados Españoles): http://www.bmerv.es/esp/aspx/Empresas/Empresas.aspx

[14] See the list at https://www.bolsasymercados.es/mab/esp/SOCIMI/Listado.aspx

[15] See news item in Expansión, 9 June 2015 http://www.expansion.com/empresas/inmobiliario/2015/06/09/55767e7322601d03338b456a.html

[16] Information from the magazine Metros2, the leading sector publication.

The renewed interest in the property market has also attracted sovereign wealth funds. Thus in addition to the significant investments of Qatar in Colonial and its French subsidiary, other players have returned to Spanish real estate. In October 2014 Singapore's GIC acquired a shareholding in GMP, the property holding company specialising in offices and industrial estates in Madrid and Barcelona, paying €200 million for a 30% stake. GIC had already made forays into the Spanish office market in the past; in 2000 it bought the headquarters of the multinational IBM, selling it six years later to Morgan Stanley for €220 million[17].

In addition to Singapore, Qatar too has been present in Spanish real estate, through Katara Hospitality. In June 2014 Katara Hospitality bought five InterContinental hotels in five European cities including Madrid (the others being Cannes, Amsterdam, Frankfurt and Rome). In the case of Spain, it is estimated that the hotel subsidiary of QIA (the former Qatar National Hotels) which already has 30 hotels, would have paid €60 million for the Madrid hotel to its former owner Ghanim Bin Saad & Sons Group Holdings (GSSG), also from Qatar.

Sovereign co-investment funds. The case of Spain

In Europe there have been several examples of public co-investment instruments capable of attracting the capital of the sovereign wealth funds. Italy, France, Ireland and Russia have all set up investment instruments capable of attracting cash from the major sovereign investors. The main idea consists in creating a public investment vehicle (a sovereign wealth fund in itself, or a sovereign co-investment fund for want of a better name) with the mandate of establishing joint investment funds together with other sovereign wealth funds. The mandates of these sovereign co-investment funds vary depending on the purpose to be achieved.

In February 2014, France established CDC International Capital (CDCIC), wholly owned by the Caisse des Dépôts Group, dedicated to negotiating investment agreements with sovereign wealth funds and other institutional investors to support the internationalisation of French companies. It already has agreements with Qatar Holding, Mubadala and the Russian Direct Investment Fund (RDIF)[18].

Ireland, following the bailout of its banks, redesigned the former National Pensions Reserve Fund and created the Ireland Strategic Investment Fund (ISIF). This represents a change from the strategy of generational saving to fund future pensions towards a strategy of domestic investment to strengthen manufacturing and employment. Within this framework, the ISIF signed an agreement in 2014 with China Investment Corporation (CIC) to create a €100 million fund to invest in technological companies. An additional purpose of the agreement is to help Ireland's technology companies sell to China, and conversely to make Ireland the point of entry for Chinese technology companies to Europe[19].

As shown in the 2014 Sovereign Wealth Funds Report, Italy too, through the Fondo Strategico Italiano (FSI), has formed a joint venture in Qatar and set up an investment company with the Kuwait Investment Authority. In the case of Italy, the purpose of the joint venture with Qatar Holding is to internationalise the companies that best reflect the "Made in Italy" concept in sectors such as food, luxury goods, design, tourism, etc. In the case of the joint venture with KIA, which is 77% held by FSI, it envisages investments in the same range as the FSI, excluding any investment in the gaming industry or alcoholic drinks. FSI has also signed investment agreements with KIC, CIC and RDIF (commitments which may reach €1 billion each)[20].

Spain has followed the same path as its European partners, and in April 2015 COFIDES and the State General Reserve Fund (SGRF) of Oman signed an agreement creating an investment fund for the internationalisation of Spanish companies. Oman, which is interested in having Spanish multinationals establish a presence in the country, will contribute €100 million, which will be matched by the Spanish state to form a fund of €200 million. The fund, which involves the creation of an asset management company, will be available to subsidiaries of Spanish companies with plans for international projection and intending to set up in Oman. As well as Oman, the agreement has a much wider geographical reach, including GCC member states and countries in East Africa, South Asia and Southeast Asia. Oman's objective, like that of most of the Gulf states, is to position itself as a linking platform between Europe and Asia (as well as East Africa). Oman is seeking to benefit from Spanish companies' experience in technology, as well as job creation, technology transfer and profitable investments. Among the sectors of interest are construction materials, infrastructure (in a country where much infrastructure remains to be developed),

[17] See Financial Times, http://www.ft.com/cms/s/2/73468dec-8c31-11da-9efb-0000779e2340.html#axzz3eRxWxO5T

[18] More information and details of investor networks at http://www.cdcicapital.fr/en/

[19] More information at https://www.dfa.ie/news-and-media/press-releases/press-release-archive/2014/january/china-investment-fund/

[20] More information on the FSI's website http://www.fondostrategico.it/en/joint-venture/joint-venture.html

agrifood (of key importance to a country with a more benign climate than its competitors to the north), energy (seeking efficiency improvements and diversification, given the dependence of government revenues on oil, which currently accounts for 77%) and tourism (which is less developed than that of its regional competitors, Qatar and Dubai.)

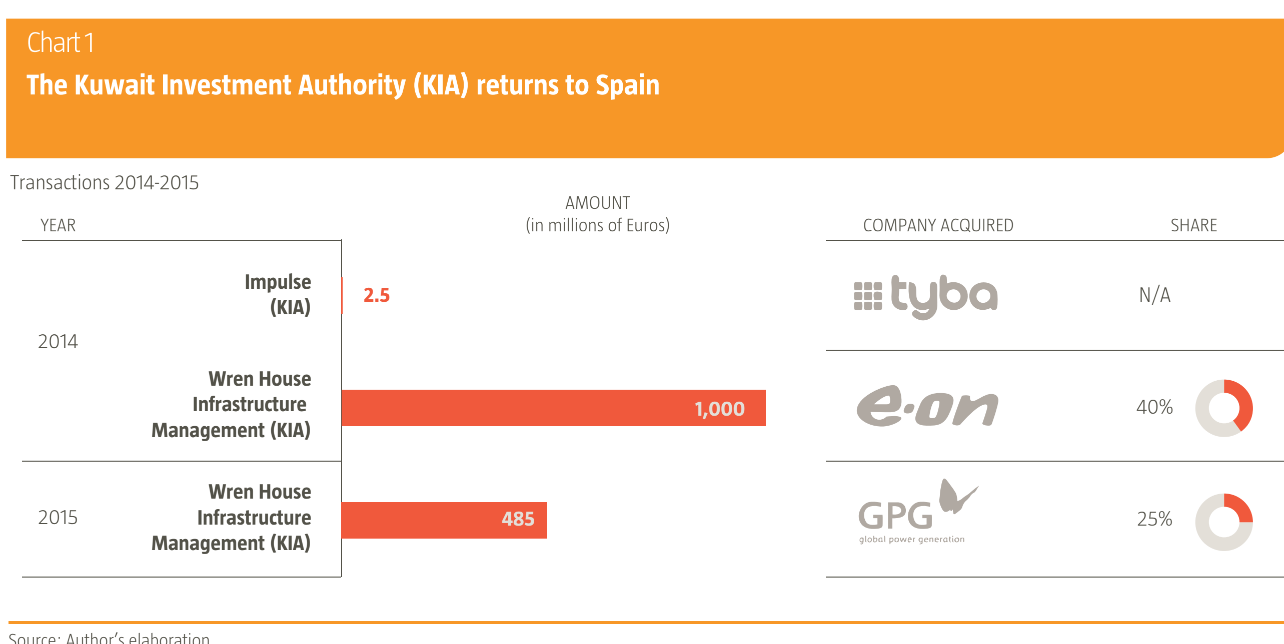
In addition to Oman, talks are ongoing with a view to establishing similar agreements with Kuwait and Qatar. In the not too distant future, COFIDES can be expected to create a unit similar to France's CDCIC to serve as a reference for the outside world and facilitate new agreements. In this way a Spanish sovereign co-investment fund could obtain advantages of visibility, efficiency, control, impact and profitability. So a new strategic task starts for this public-private entity. (COFIDES is 54% state owned, through ICEX, ICO and ENISA, and 46% owned by the private sector in the shape of four banks: BBVA, Santander, Banco Popular and Sabadell, in descending order of contribution to the capital). The potential benefit for Spanish companies abroad is significant and clear: financing and the opening of new markets; in parallel, the relations generated by this kind of agreement between countries can serve as a basis for establishing long-term relationships between Spain and some of the world's most important funds.

Latin America: Two speeds, both slow

Latin American economies have been going through a difficult time recently. Specifically, the eight countries of the region that have sovereign wealth funds averaged growth of around 1.8% in 2014, although there were clear disparities among them. For example Venezuela, with a fall in GDP estimated by the International Monetary Fund at 4%, contrasts with the 6.2% growth posted by Panama. In general, and as more and more analysts are confirming, Latin America is rather a set of Latin Americas, and currently we may think in terms of two well differentiated groups. The Pacific Alliance, comprising Mexico, Colombia, Peru and Chile, posted average growth of 2.5% in 2014 , whereas the Atlantic countries such as Brazil (0.2%) and Venezuela (-4%) show a more worrying trend. More so in Venezuela than in Brazil, which is going through the low point of an economic cycle which may turn into structural in a country with a well educated population, stable healthcare and legal systems, and a strong financial market.

The region grew at a faster rate than the ASEAN-5 (Malaysia, Indonesia, the Philippines, Thailand and Vietnam) in 2011, dodging the worst of the world economic crisis. In fact the region grew at more than the average world rate until 2012. However, by 2014

Chart 1
The Kuwait Investment Authority (KIA) returns to Spain



Source: Author's elaboration.

Table 5

Exports of commodities by Latin American and Caribbean countries with sovereign wealth funds

	Exports of commodities (% GDP)	Three main exports (% total)	Concentration of destination markets (China)*	Main destination	Main export	Price of main commodity, (Change 2012-2015, %)
Trinidad and Tobago	37	90	82 (0)	United States	Natural Gas	-32.89%
Chile	24.7	68	79 (30)	China	Copper	-20.92%
Venezuela	20.2	94	88 (17)	United States	Petroleum	-40.53%
Panama	19.2	49	79 (0)	Ecuador	Petroleum	-40.53%
Peru	18.6	53	75 (20)	China	Gold and Copper	-37.90% -20.92%
Colombia	13.2	78	80 (8)	United States	Petroleum	-40.53%
Mexico	7.7	61	91 (4)	United States	Petroleum	-40.53%
Brazil	6.8	45	69 (29)	China	Iron ore	-53.13%

Source: In-house, with data from "State of Commodity Dependence" UNCTAD (2014), IMF Primary Commodity Prices (2015). *Percentage of total exports represented by the five main markets (and China).

Latin America and the Caribbean were already growing at below the European Union average, and showing signs of fatigue (see Graph 1) due to flagging international demand, particularly the slowdown in Chinese demand for raw materials, the end of expansive monetary policies in the United States, which brought with it a significant depreciation of currencies throughout the region, and the end of the commodity price super-cycle, which was exacerbated by the fall in the price of oil. The IMF does not foresee a recovery in the region until 2016, when it should return to growth, albeit at an inadequate rate (2%).

Movements in commodity prices have affected the countries in the region that have sovereign wealth funds very substantially. The Latin American countries that have sovereign wealth funds do not at all have the same degree of dependence on commodities (Table 5). Brazil, México and Colombia are countries whose exports of commodities represent less than 15% of GDP. At the other extreme, commodity exports of Trinidad and Tobago, Chile and Venezuela represent more than 20% of GDP (as much as 37% in the case of Trinidad and Tobago). An analysis of the concentration of exports shows that Venezuela and Trinidad and Tobago continue to be very heavily (more than 90%) dependent on oil and natural gas respectively. In contrast, Brazil, Panama and Mexico have a more balanced diversification of commodity exports, with concentrations of around 50%.

This variety contrasts with the fall across the board in the majority of commodity prices since 2012. Headed by iron ore (Brazil's main export commodity) prices of which fell by more than 50% from 2012 to June 2015; other commodities such as oil, gold and natural gas have suffered very significant falls, in excess of 40%, 37% and 32% respectively. If we combine these falls in price with the slowdown in demand from China, which is the main commodities export destination for Chile, Peru and Brazil, the end of the commodities super-cycle for Latin America is only too clear.

Latin American sovereign wealth funds

Latin American sovereign wealth funds have suffered from these ups and downs in the global economy. All in all, the region's eight sovereign wealth funds had $50.8 billion in AUM at the end of 2014, down by $1 billion relative to 2013. The funds that have suffered most are Chile's FEES (*Fondo de Estabilización Económica y Social* or "Economic and Social Stabilisation Fund"), the recently created Mexican fund, and Brazil's *Fundo Soberano do Brasil*. We discount the evolution of the Venezuelan fund, whose assets have fallen by more than 60% in the past year, the country being mired in a serious economic and social crisis (see Table 6).

4. Sovereign wealth funds in Spain and Latin America: Spain's consolidation as an investment destination

Table 6

Latin American and Caribbean sovereign wealth funds

ESADEgeo ranking	Fund	2014 ($bn)	2013 ($bn)	Change % (14/13)	Country	Established	Source of resources
35	Fondo de Estabilidad Económica y Social	14.60	15.42	-5.32%	Chile	2007	Copper
40	Fondo de Estabilización Fiscal	9.16	8.60	5.81%	Peru	2011	Fiscal
41	Fondo de Reserva de Pensiones	7.94	7.40	6.76%	Chile	2006	Copper
46	Fundo Soberano do Brasil	6.85	7.10	-3.43%	Brazil	2008	Fiscal
47	Fondo Mexicano del Petróleo para la estabilización y el desarrollo	5.70	6.00	-5.00%	Mexico	2015	Petroleum
49	Heritage and Stabilization Fund	5.60	4.70	19.15%	Trinidad and Tobago	2000	Petroleum
59	Fondo de Ahorro de Panamá	1.40	1.30	7.69%	Panama	2011	Royalties
67	Fondo para la Estabilización Macroeconómica	0.70	1.80	-61.11%	Venezuela	1998	Petroleum
n/a	Colombia Sovereign Wealth Fund	n/a	n/a		Colombia	2011	Petroleum
	TOTAL	50.8	51.8	-1.97%			

Source: In-house, with data from the funds' websites and ESADEgeo (2015)

Chile's FEES is the region's biggest sovereign wealth fund. With $14.6 billion under management, it exemplifies the way stabilisation funds work: offsetting the deficits resulting from reduced tax revenues, in the case of Chile coming mainly from copper, as well as amortising public debt.

The FEES has not received contributions since the second quarter of 2013 (these contributions to the fund's capital are governed by a "fiscal rule" allowing the Fund's assets to be increased in certain circumstances). On the other hand there have been "withdrawals" in the amount of $500 million (in the second quarter of 2014), transferred to the FRP (*Fondo de Reserva de Pensiones* or Pension Reserve Fund, Chile's other sovereign wealth fund).

The FEES' exposure to liquid instruments and fixed income has not helped to mitigate the lack of contributions: since the third quarter of 2014, the FEES has experienced cumulative losses of capital of more than $1.15 billion. The return on investments in the money market and sovereign bonds in the past 12 months is a negative 5.7%, in stark contrast with the positive profitability of its equity portfolio (5.78%). However, the FEES maintains a conservative investment policy and invests only 8.1% of its portfolio in equities. The main positions are Apple, Exxon and Microsoft, with $23 million, $11 million and $10 million respectively[21].

[21] See Report for 2015 (I), available at http://www.dipres.gob.cl/594/articles-133152_doc_pdf.pdf

In the case of the FRP, which is intended to finance future pension contingencies, the portfolio does not include bank deposits, and its exposure to sovereign bonds represents 46.9%, compared with the 66.8% of the FEES. Furthermore, the FRP invests 15.8% of its assets in equities, with returns similar to those of the FEES, and with the very same companies heading the equity positions. The profitability of the portfolio however has fallen by nearly 1.81% in dollar terms[22]. Only the contribution received from the FEES explains the FRP's growth in assets (6.8%).

Peru's FEF, in contrast, has seen its assets increase by nearly 6% over the past year, reaching $9.1 billion. Established in 2000 with just $100 million, it has multiplied the value of the fund by nearly 100 in the past fifteen years, following a clear fiscal rule. An example of "austerity" in the region, which has not escaped criticism. Peru has increased the volume of its assets, but the profitability of its investments is only around 0.2%, insufficient for an economy with a clear need for investment in infrastructure, innovation and education[23]. Just as Chile started to show some years ago, flexibility in the investment strategy could drive profitability.

[22] See Report for 2015 (I), available at http://www.hacienda.cl/fondos-soberanos/fondo-de-reserva-de-pensiones/informes-trimestrales/informe-enero-marzo-2015.html

[23] Information on the profitability of the fund in Gestión, 16 April 2015: http://gestion.pe/opinion/desaceleracion-y-fef-contrasentido-juan-jose-marthans-2129193

Peru could establish a co-investment fund to facilitate the arrival of private and public capital funds (pension funds or sovereign wealth funds) with the spotlight on innovation and infrastructure. A more flexible rule that included domestic investment in other kinds of assets could help close the investment gap faced by the country, but should be accompanied by a process of transparency and governance. The FEF (*Fondo de Estabilización Fiscal* or "Fiscal Stabilisation Fund") has very limited transparency. The only official information available shows the annual simplified balance sheet, but gives no information on the fund's corporate governance, investment policy, geographical distribution or objectives[24].

For its part, the *Fundo Soberano do Brasil* lost 3.43% of its value relative to 2013, ending 2014 below $7 billion. With considerably more transparency than Peru's FEF, the FSB publishes quarterly progress reports[26]. Thanks to this transparency it is possible to assess the serious impact of the depreciation of the real against the dollar on the value of the FSB's assets. The FSB's Advisory Board continues with the decision to invest only in domestic assets denominated in reais, although there is no legal prohibition on investing abroad (the so-called *"carteira efetiva internacional"* or foreign equity portfolio)[26]. This policy of domestic investment leads to the entire portfolio being held in assets denominated in Brazilian reais. Thus in the past twelve months the FSB in local currency has increased the value of its assets by 10.23%, from 16,678 million reais to 18,384 million, showing a substantial improvement in the fixed income portfolio compared with the equities portfolio (consisting mainly of shares in Banco do Brasil, which fell by 2.6%). However, in the same period, the real depreciated by 14.1% against the dollar. The net result is a loss in the FSB's value in dollar terms of nearly 3.5%. The exchange risk to which the FSB is exposed is not seen in the case of Chile or Peru, whose assets are mainly denominated in dollars.

[24] The latest information available at: http://www.mef.gob.pe/contenidos/tesoro_pub/fef/FEF2014.pdf

[25] Available in Portuguese at http://www.tesouro.fazenda.gov.br/relatorios-de-monitoramento

[26] International investment is a basic criterion for determining whether a state-owned fund is a sovereign wealth fund. The work by Capapé and Guerrero (2014) on the definition of "sovereign wealth fund" can be consulted at: http://fletcher.tufts.edu/SovereigNet/Research/More-Layers-Than-an-Onion