

# ABANA REVIEW

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## SOVEREIGN WEALTH FUNDS TAKE CENTER STAGE

Sovereign wealth funds from across the Middle East have quickly become central players in the global financial marketplace. Middle East SWFs are providing liquidity to distressed financial institutions and making strategic investments in a wide variety of companies and asset classes. This issue of the *ABANA Review* focuses on the impact of SWFs on the global marketplace and the issues these funds will face as they become more prominent and direct actors in the financial world. In particular, the articles presented here provide a history and overview of sovereign wealth funds, and concrete information on the size and objectives of their investment activity. More than one of these articles put the scale and clout of SWFs in perspective relative to other important financial institutions. Each of the authors we feature offers insight into the political headwinds that SWF confront as they grow in size and prominence, and in some cases, thoughts on how these funds might navigate these challenges. It is a measure of the interest in this subject that our request for articles garnered such thoughtful submissions. We are grateful to all of the authors who contributed their time and work to this issue.

## Sovereign Wealth Funds: A Perspective On Their Presence

By Verdun Edgton and Tanya Amaya

The level of potential capital investment by Sovereign Wealth Funds in global financial markets should be viewed as an opportunity for critical and constructive discussion of the role of SWFs. The goal is to give all global financial institutions a better appreciation of the interdependencies of integrated international global capital markets and to speak to more cohesive development. The

Verdun Edgton is Vice President and Corporate Governance Officer at The Bank of New York Mellon. Tanya Amaya is an Assistant Vice President with the Bank. You may write to Mr. Edgton at [verdun.edgton@bnymellon.com](mailto:verdun.edgton@bnymellon.com) and Ms. Amaya at [tanya.amaya@bnymellon.com](mailto:tanya.amaya@bnymellon.com). For additional information about the Bank, visit [www.bnymellon.com](http://www.bnymellon.com).

recent inaugural roundtable convened by the International Monetary Fund on SWFs is a positive development in recognizing the need for global consultation in this area.

### INTRODUCTION

Recently, Sovereign Wealth Funds have attracted considerable attention and scrutiny from financial and political media – attention not seen since the widespread proliferation of the hedge fund industry in the late 1990's.

With current assets estimated at \$2-3 trillion USD<sup>1</sup>, the size and investment scope of these funds have undergone significant increase since the early 1990s, when total assets were near the \$0.5 trillion USD level. Several notable investments by Sovereign Wealth Funds (\$6.6bn USD in Merrill Lynch and \$14.5bn USD in

Citigroup<sup>2</sup>) have led key participants within the financial markets to rapidly augment their overall levels of expertise, due diligence on and policy stance towards this emerging investor segment<sup>3</sup>.

This paper provides a general overview of some characteristics of SWFs, their prominence as institutional investors and the corporate governance implications relevant to their role in the global securities markets.

### WHAT IS A SWF?

Sovereign Wealth Funds can be defined as “government investment vehicles funded by foreign exchange assets, managed separately from official reserves”<sup>4</sup>. They are structured to keep assets off the balance sheets of central banks. The financial industry segments them into two distinct categories based on the source of their foreign exchange assets:

- **Commodity Funds** – Funded by the commodity exports of a country that are either solely owned by the government or subject to government taxation
- **Non-Commodity Funds** – Established generally through transfers from official foreign exchange reserves due to a balance-of-payment surplus

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LETTER FROM THE PRESIDENT

## Dear Members and Friends,



I am very pleased to present the Summer 2008 ABANA Review. In this issue, we are focusing on the activities of the sovereign wealth funds of the Middle East. Through our programs and publications during the year and beyond, we will aim to comprehensively cover varied themes relating to these funds. In May 2008, we addressed Middle East sovereign wealth funds through several panel discussions during our annual conference which focused on the current trends in Gulf investing. At that time, our group of industry experts analyzed the historic rise of these funds, their widespread effect on cross-border investments and the various ways their latest investment patterns have reshaped the market. This ABANA Review edition represents our next step towards bringing the past, present and future of these funds to light.

We hope you will enjoy the editorials from our writers who represent the firms Gibson, Dunn & Crutcher, Hogan & Hartson, Monitor Group, The Bank of New York Mellon and UBS Investment Bank. Together, their articles provide a historical, regulatory, legal, accounting and statistical perspective on the region's sovereign wealth funds. We extend our sincere thanks to these authors for their submissions which have made this Review possible.

Our heartfelt thanks also go out to our Communications Committee and staff for their tireless efforts during each stage of publication.

We will shortly be soliciting articles for the next issue of the ABANA Review. In addition, if there are any topics you would like us to consider for future issues of the Review, please let us know.

Have a relaxing summer – and happy reading,

Laura Osman

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**ARAB BANKERS ASSOCIATION OF NORTH AMERICA, INC.**  
P.O. BOX 2249  
GRAND CENTRAL STATION  
NEW YORK, NY 10163  
T: 212.599.3030  
F: 212.599.3131  
WWW.ARABBANKERS.ORG

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**SOVEREIGN WEALTH FUNDS: A PERSPECTIVE ON THEIR PRESENCE**

**Table 1 Large Sovereign Wealth Funds<sup>1</sup>**

| Country                  | Name   | Date established | Current size <sup>a</sup> (billions of U.S. dollars) |
|--------------------------|--|------------------|--|
| United Arab Emirates     | Abu Dhabi Investment Authority                   | 1976             | 500 to 875 <sup>a</sup>                              |
| Singapore                | Government of Singapore Investment Corporation   | 1981             | 100 to 330 <sup>a</sup>                              |
| Norway                   | Government Pension Fund - Global                 | 1990             | 308  |
| Kuwait                   | Future Generations Fund                          | 1976             | 174  |
| Russia                   | Stabilization Fund of the Russian Federation     | 2004             | 122  |
| Singapore                | Temasek Holdings <sup>b</sup>                    | 1974             | 108  |
| China                    | Central Huijin Investment Company <sup>c</sup>   | 2003             | 66 <sup>a</sup>                                      |
| Qatar                    | Qatar Investment Authority                       | 2005             | 50 <sup>a</sup>                                      |
| Algeria                  | Revenue Regulation Fund                          | 2000             | 43   |
| Australia                | Future Fund <sup>d</sup>                         | 2006             | 42   |
| United States            | Alaska Permanent Fund <sup>d</sup>               | 1976             | 40   |
| Kuwait                   | General Reserve Fund                             | 1960             | 39   |
| Brunei                   | Brunei Investment Agency                         | 1983             | 30 <sup>a</sup>                                      |
| Korea                    | Korea Investment Corporation                     | 2005             | 20 <sup>a</sup>                                      |
| Malaysia                 | Khazanah Nasional <sup>b</sup>                   | 1993             | 18   |
| Kazakhstan               | National Oil Fund                                | 2000             | 18   |
| Venezuela                | National Development Fund <sup>d</sup>           | 2005             | 15   |
| Canada                   | Alberta Heritage Savings Trust Fund <sup>d</sup> | 1976             | 14   |
| Iran                     | Oil Stabilization Fund                           | 2000             | 12 <sup>a</sup>                                      |
| New Zealand              | Superannuation Fund <sup>d</sup>                 | 2001             | 10   |
| <b>Total<sup>d</sup></b> |  |                  | <b>2032</b>  |

e = estimate, r = some or all assets are included in reserves  
 a. Data are from the end of 2006 or the most recent date available.  
 b. A portion of the holdings is in domestic assets.  
 c. A portion of these holdings is intended for domestic investment.  
 d. Total uses the midpoint of the range of estimates.

Source: Edwin M. Truman, "Sovereign Wealth Fund-The Need for Greater Transparency and Accountability," *Peterson Institute for International Economics, August 2007, Number PB07-6.*

Continued from Page 1

The funds suit a variety of different objectives. Two primary objectives are:

- **Stabilization** – To insulate the revenue stream of a country from short-term market developments and price fluctuations of the underlying asset (whether commodities or foreign exchange)
- **Intergenerational saving** – To accumulate capital for future generations based on returns from invested assets

As a result of the continued trend in advancing commodity prices and rising balance-of-payment surpluses, a fund's objectives may move from an initial need for stabilization to longer-term, intergenerational savings.

**PROMINENCE OF SWFs**

SWFs came into existence in 1953 with the inception of the Kuwait Investment Board (later known as the Kuwait Investment Office, a subsidiary of the Kuwait Investment Authority), which was created to invest that country's surplus oil revenues.

SWFs expanded, during the 1970s, with the creation of Temasek Holdings in Singapore (1974) and the Abu Dhabi Investment Authority or ADIA (1976) and, in the 1990s, with the Norwegian Government Petroleum Fund and Iran Stabilization Fund.

At present, there are some 40 SWFs in existence. The largest SWFs are: the Abu Dhabi Investment Authority (\$875bn USD), the Government of Singapore Investment Corporation (\$330bn USD<sup>5</sup>) and the

Norwegian Government Pension Fund – Global (\$308bn USD), which was re-named in 2006. Twelve new SWFs were created in 2005<sup>6</sup>, and several additional funds are anticipated for the second half of the 2008 calendar year.

By 2015, SWF assets may reach \$10 to 15 trillion USD<sup>7</sup>. These estimates depend on variables including fluctuations in oil prices, rates of return on assets and foreign exchange rates.

In comparison to current SWF assets, hedge funds manage some \$1.7 trillion USD<sup>8</sup>, while traditional institutional investors (e.g., pension funds) manage nearly \$53 trillion USD in assets<sup>9</sup>. Hedge fund assets under management may reach \$3.5 trillion USD by 2012<sup>10</sup>.

SWF assets seem to dwarf hedge fund assets – until leverage enters the equation. SWFs are assumed to operate on a "long-term" horizon of buy-and-hold, with concomitant strategy of modest short positions. Bader Al-Sa'ad, head of the Kuwait Investment Authority, recently affirmed this sentiment by asserting that SWFs "don't seek to take advantage of mispriced assets using high leverage." Rather, they "are long-term in nature, not speculative." The same cannot necessarily be said of their hedge fund counterparts, whose leverage ratios have reportedly reached double-digit numbers. Leveraged, hedge funds assets are closer to \$6 trillion USD at present and expected to reach \$9-12 trillion USD by 2012<sup>12</sup>.

Another noteworthy comparison is the Eastern Europe, Middle East & Africa (EMEA) region, where the total value of securities traded is roughly \$4 trillion USD<sup>13</sup>. A substantial amount of SWF

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**SOVEREIGN WEALTH FUNDS: A PERSPECTIVE ON THEIR PRESENCE**

assets come from these regions, but it is unclear how many are being reinvested into securities in those same regions. While growth in SWFs can be attributed to an increase in both sovereign wealth and the global stature and development of these economies, relatively modest regional trading values in a number of SWF markets indicate that their private

Sovereign Wealth Funds share a responsibility to adopt best-practice corporate governance structures and processes reflecting their contribution and importance to global capital markets.

financial infrastructure has not yet developed to levels comparable to more mature markets, as the investment management process has largely been confined to those markets.

**SOVEREIGN WEALTH FUNDS AND CORPORATE GOVERNANCE**

The recent high-profile investments by SWFs in U.S. financial institutions have engendered some discussion concerning their likely approach to corporate governance. Public commentators have characterized SWFs as being “passive,” “investors without strings” and “long-term.” Conclusions are then drawn that SWFs will not be strong on governance issues. Some commentators also contend that SWFs will not be active in monitoring their investments, due to fears over a political backlash if they do, because of deficiencies in their own internal governance structures, or because they are not transparent about their investment principles.

**CONSIDERATIONS FOR GLOBAL GOVERNANCE**

Two issues determine the approach of SWFs and other global investment institutions to corporate governance:

- **Legal and Regulatory Frameworks** – These govern the structure and disclosure obligations of investment institutions and delineate external parameters within which investment institutions must operate.
- **Procedures, Objectives and Metrics** – These sustain the performance of the investment institutions themselves as internal arrangements of responsibility and accountability that define the tasks and functions of those responsible for delivering a return on the investment capital allocated to them.

**NATIONAL LAW AND REGULATION**

SWFs may seem anomalous in comparison to other international institutional investors, to the extent that a particular SWF is domiciled in a jurisdiction requiring limited or no regulatory oversight.

The benefits SWFs provide, like enhanced liquidity and financial resource allocation, need evaluation against the risk that any lack of transparency about their investment activities may have on well-functioning global financial markets. Necessarily then, national regulation or best-practice corporate governance and disclosure standards in SWF jurisdictions need to focus on international risk.

However, all institutions are not the same the world over. Recent calls for detailed transparency by SWFs could, in some cases, place them at a

disadvantage in remaining true to their purpose. Detailed disclosure of specific sector investments could leave SWFs prone to currency speculation and undermine both their stability and the liquidity benefits they contribute to global markets.

**INSTITUTIONAL DESIGN**

Since governance is a prerogative of ownership, those entrusted with making decisions on behalf of owners must adopt governance practices that benefit owners. For this to occur, all investment institutions should be clear on institutional goals and objectives. They should design internal processes that enable and allocate responsibility for decision-making. Also, they should match intellectual capital to the mission of the institution and processes that support the mission.

For those SWFs relatively new to the global investment scene, the institutional design of their governance framework is likely to determine the quality of their contribution to global markets and their concomitant imperative of augmenting national wealth. When institutional investors become willing to be transparent with their governance practices, this will encourage a disciplined investment process leading to improved institutional performance.

In global financial markets, all institutions have a collective responsibility to support market behavior that sustains financial linkages among economies and mitigates extant vulnerabilities. By responding to the governance challenge, SWFs can raise their contribution to global markets to a higher level.

**CONCLUSION**

SWFs are unique investment vehicles because of the way they source investment capital, the purpose(s) for which they invest, and the nature of their stakeholder accountability for the performance of their investments. Nonetheless, SWFs share a responsibility to adopt best-practice corporate governance structures and processes reflecting their contribution and importance to global capital markets. ■

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**Footnotes:**

- <sup>1</sup> Johnson, Simon. "The Rise of Sovereign Wealth Funds." Finance and Development, A Quarterly Magazine of the IMF, September 2007, Volume 44, Number 3.
- <sup>2</sup> "Asset-Backed Insecurity." The Economist, January 17, 2008.
- <sup>3</sup> "IMF Convenes First Annual Roundtable of Sovereign Asset and Reserve Managers." Press Release No. 07/267, <http://www.imf.org/external/np/sec/pr/2007/pr07267.htm> (November 16, 2007).
- <sup>4</sup> Kimmitt, Robert M. "Public Footprints in Private Markets." Foreign Affairs, January/February 2008, Volume 87, Number 1.
- <sup>5</sup> Truman, Edwin M. "Sovereign Wealth Funds—The Need for Greater Transparency and Accountability." Peterson Institute for International Economics, August 2007, Number PB07-6.
- <sup>6</sup> Johnson, "The Rise of Sovereign Wealth Funds."
- <sup>7</sup> *Ibid.*
- <sup>8</sup> "The New Power Brokers—How Oil, Asia, Hedge Funds, and Private Equity Are Shaping Global Capital Markets." McKinsey Global Institute, October 2007, page 24.
- <sup>9</sup> Johnson, "The Rise of Sovereign Wealth Funds."
- <sup>10</sup> "The New Power Brokers—How Oil, Asia, Hedge Funds, and Private Equity are Shaping Global Capital Markets," page 27.
- <sup>11</sup> Sender, Henny. "For Sovereign Funds, Silence May Not Always Be Golden." Financial Times, January 18, 2007.
- <sup>12</sup> "The New Power Brokers—How Oil, Asia, Hedge Funds, and Private Equity are Shaping Global Capital Markets," page 27.
- <sup>13</sup> Johnson, "The Rise of Sovereign Wealth Funds."

**MARKET IMPLICATIONS**

## Sizing Up The Leviathan

Sovereign wealth funds are growing in size and influence, but still wield much less sway than the world's central banks

By Terrence Keeley

Sovereign wealth funds (SWFs) are hardly new. Indeed, the Kuwait Investment Authority (KIA), Government of Singapore Investment Corporation (GIC) and Abu Dhabi Investment Authority (ADIA) can collectively point to more than a century of investment experience. But their rapid build-up in both number and size recast them in a new light – that of omnipotent financial heavyweights. It is time to ask how they will influence the global financial system, and how banks should respond to the opportunities and challenges they bring.

To understand SWFs, it is first necessary to define them. The catch-all definition – asset pools overseen by publicly-accountable officials – embraces thousands of funds with more than \$12 trillion under management, much of it in the US. Market participants however tend to think of SWFs as non-US in origin, and beyond the scope of financial market regulation. To keep the discussion clear, publicly accountable investment pools

can be categorized as follows:

- Central banks and ministries of finance;
- Multilateral organizations;
- Funded local government pension/future generation funds;
- Funded federal government pension/future generation funds;
- Federal and state-sponsored stabilization funds; and
- Federal and state-sponsored investment corporations.

Each of these categories employs specific similar mandates and investment patterns (see Table). Each can affect asset valuations in meaningful, though notably different ways. Each is growing at a different rate, some at the expense of others. The Chinese Investment Corporation (CIC), for example, was funded largely by the sale of bonds to the Chinese central banking authority, the State Administration of Foreign Exchange. If, as now debated, Japan establishes a federal investment corporation, it would likely be financed by Japan's Ministry of Finance in a similar way.

The following six-category taxonomy shows that SWFs are a very heterogeneous

*Terrence Keeley is Global Head of Central Bank Services at UBS Investment Bank. For additional information, write to [terrence.keeley@ubs.com](mailto:terrence.keeley@ubs.com).*

SIZING UP THE LEVIATHAN

**TABLE: SIX CATEGORIES FOR SOVEREIGN ASSET POOLS**

| Institution Type                                 | Examples  | #     | AUM                    | CAGR*      | Products  |
|--|---|-------|------------------------|------------|---|
| Central banks/ministries of finance              | BOJ, SAFE, SNB, CBOC, MoF Japan                           | 200+  | \$6.8 trillion         | 12%        | Govt bonds, gold, HG fixed income, money markets, public equities (trace) |
| Multilateral organizations                       | IMF, BIS, World Bank, ADB, IFC, IADB, AfDB                | 25    | \$800 billion          | 9%         | Govt bonds, IR derivs, HG fixed income, money markets, gold               |
| Federal govt pension/future generation funds     | Norwegian Pension Fund, GIC, Australian Future Fund, ADIA | 25    | \$1.4 trillion         | 8%         | Public equities, HG fixed income, real estate                             |
| State/local govt pension/future generation funds | CalPERS, State of Florida, Alaska Permanent Fund          | 2500+ | \$2.6 trillion         | 5%         | Public equities, HG fixed income, alternative investments                 |
| State-sponsored stabilization funds              | Russia, Chile, Botswana, Libya                            | 30    | \$600 billion          | 18%        | HG fixed income, money markets, equities                                  |
| State-sponsored investment corporations          | KIC, GIC, CIC, Temasek, QIA, Khazanah, ADIA, Dubai IC     | 10    | \$700 billion          | 18%        | Strategic equities, HG fixed income                                       |
| <b>Total</b>                                     |   |       | <b>\$12.9 trillion</b> | <b>12%</b> |   |

Sources: IMF and BIS publications, UBS estimates, the Money Market Directory and various official central bank publications. \*CAGR projected to 2012.

group, with widely varying governance structures and investment characteristics. The implications for

example, started life as a stabilization fund but, outgrowing its original mandate, has morphed into a future generation fund as well as a state-sponsored investment corporation. In a similar fashion, Russia is splitting its massive foreign exchange holdings between its central bank, an oil stabilization fund that is to be capped at 10% of GDP, and a future generation's fund. To date, however, all Russian funds have been invested across currencies and asset classes rather as if they were traditional central bank reserves.

Most commentators tend to define sovereign wealth funds as a collection of federal, future generation or pension funds, stabilization funds, and government-sponsored investment corporations – excluding central banks, ministries of finance, multilateral organizations and

state/local pension funds. Using this definition, UBS Public Policy recently estimated that SWFs now preside over assets worth some \$2.7 trillion. Institutions in this bracket include many that benefit from two of the most powerful forces now fostering SWF formation and growth, namely (1) rising commodity prices, principally for oil (see Box), but also copper, gold, gas and phosphates; and (2) Asian trade surpluses and currency regimes.

Recent high-profile investments by ADIA, CIC and GIC have attracted a special glare of publicity to these sub-categories of SWFs. However, the economic impact of these narrowly defined SWFs is easily overstated. At present, we estimate, they represent less than one quarter of all publicly accountable assets under management and less than 3% of total assets under management worldwide. By

Every sovereign client will need service tailored to their particular needs and objectives.

commercial and investment banks are clear. Every sovereign client will need service tailored to their particular needs and objectives. Some SWFs can alter their investment behavior very quickly, but more often they are subject to bureaucratic oversight and control. For this reason, only a few are really able to act tactically. Some provide complete transparency on what they do; others – indeed, most – are circumspect or even secretive about their activities. Some are hybrids within the six categories outlined above. ADIA, for

comparison, central banks and finance ministries, together with state and local pension plans, preside over assets worth nearly three times as much. Because of their role in setting foreign exchange policies and their emphasis on high-quality fixed-income investments, central banks and finance ministries are particularly influential in foreign exchange valuations, official interest rates and high-grade credit spreads.

A further point needs to be stressed. The expansion of investment corporations in Asia – and probably soon in other developing countries with burgeoning FX reserves, such as Brazil – is a virtual necessity if the respective central banks are to avoid financial calamity. Why? Against their more than \$4 trillion in foreign exchange assets, emerging-market central banks hold mostly local currency-denominated liabilities – that is, local money-market instruments issued to sterilize the effects of foreign exchange intervention.

As the renminbi, Singaporean dollar, Korean won, Malaysian ringgitt and Brazilian real all rise in value against the US dollar, euro or yen, their central banks must mark-to-market a balance sheet loss. By putting more assets into investment corporations and simultaneously pursuing more diversified and return-oriented investment schemes, these central banks limit the amount of currency translation risk they bear while improving the risk/reward prospects of their assets. Over the past three years, emerging market central banks have averaged a negative 180 basis point return in local currency terms on their multi-trillion reserve portfolios. Over the same period, multi-

asset portfolios, such as those pursued by pension plans, have recorded positive returns of some 300-400 basis points per annum in local currencies.

Fundamentally, the further growth of federal investment corporations in the developing world is favoured by the prospects for higher returns,

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## State-sponsored investment corporations represent less than 3% of total assets under management worldwide.

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reduced balance sheet risks and the desire to invest in strategically more significant assets than US treasury bonds. As these funds start to flow into riskier asset classes, they will influence financial markets more markedly. At the same time, those who expect these leviathans to lift all stock prices and tighten all credit spreads are likely to be disappointed. ■

### THE OIL FACTOR

Virtually all of the world's largest stabilization funds and future generation funds, save Singapore's, owe their munificence to large oil reserves. Between them, the foreign securities holdings of Norway, Russia, the Gulf nations, Libya, Nigeria and other OPEC members total some \$2.6 trillion, up from just \$600 billion in 2000. Since 2004, oil exporters have increased their holdings of foreign securities at four times the rate of all other countries, save China. Thus, the decisive factor for the future size of sovereign wealth funds is the oil price. A secondary factor, of course, is whether commodity exporters stop saving their revenues and start spending more. If high crude prices are here to stay, one should expect Gulf nations and other oil exporters to continue expanding their foreign asset holdings rapidly during the next five years.

## LEGAL STRATEGY

## Choosing a Path Wisely

### Trailblazing Deals for Sovereign Wealth Funds looking to access U.S. Markets will require strategy and active use of counsel

By Marcia A. Wiss, Esq., Jeanne S. Archibald, Esq. and James A. Morin

While the U.S. marketplace may be rockier than in the past, it still represents the central crossroads of global investment markets. As Sovereign Wealth Funds ("SWFs") continue to seek consistent and elevated returns above those offered by industrialized country debt securities, investments in U.S.-based firms and projects will remain attractive. Recent events and policy changes in Washington at first appear to complicate these prospects, but a

article addresses issues faced by bankers and counsel in structuring these transactions and working through pertinent regulatory mechanisms.

Sovereign Wealth Funds are governmental investment vehicles funded by foreign exchange assets, managed separately from a country's official reserves. They serve a variety of purposes and can be instrumental in diversifying and sustaining national wealth, providing macro-economic stability for both their home state and the markets in which they invest.

U.S. policymakers have acknowledged publicly the enormous benefit and necessity of foreign direct investment to the American economy and widely recognize the laudable goals of SWFs and intergenerational saving. Many of the same policymakers, however, have voiced concerns about a foreign government's participation in the marketplace. The ultimate concern of SWF critics is the lack of a meaningful, compulsory "mechanism" to ensure compliance with the elemental standards of a healthy economy and related national security interests.

Finding the right balance between these concerns, and the desire to keep America open to investors, was one of the objectives of the Foreign Investment and National Security Act of 2007 (FINSIA). An SWF

looking to make significant investments in the U.S. will face this newly revamped process, but there are several areas that may threaten a successful closing. Finding a winning deal will only be part of the battle. It will be imperative for SWF managers to think strategically in making U.S. investments and, we modestly conclude with a modicum of self-interest, they should be ready to rely heavily on their chosen legal representatives.

A fair and predictable review process will assuage critics and, simultaneously, foster a sense of certainty for the dealmakers themselves. Review under FINSIA, however, is only the final hurdle in clearing the regulatory review process. Prior to considering national security concerns, the U.S. government will review foreign ownership under laws and regulations relating to antitrust, export controls, financial services, securities regulation and, if applicable, the defense industry. Transactions involving energy producers may need to be approved by energy regulators. The Federal Communications Commission will examine any relevant telecommunications deal and increasingly does so in consultation with "Team Telecom" — an informal group of agencies concerned with homeland security.

A strategically chosen path and firm footing are critical to avoiding some of the pitfalls for a SWF looking to successfully enter the U.S. market.

careful analysis demonstrates that the United States still welcomes foreign direct investment, including SWF investment. Yet, a strategically chosen path and firm footing are critical to avoiding some of the pitfalls for a SWF looking to successfully enter the U.S. market. This

Marcia A. Wiss, Esq., Partner, Jeanne S. Archibald, Esq., Managing Partner, and James A. Morin represent Hogan & Hartson LLP, a leading law firm with a global platform. For additional information, visit [www.hhlaw.com](http://www.hhlaw.com).

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Continued from Page 8

Only when compliance with U.S. law is satisfied for the above matters will the federal government look at the possibility of blocking a proposed transaction purely for its national security impact. Under FINSAs and its predecessor legislation, this task will fall to the Committee on Foreign Investment in the United States (CFIUS). CFIUS is actually an interagency committee consisting of senior representatives of 12 different federal agencies, each of which brings a particular perspective to bear in making recommendations on the proposed transaction.

Review of a transaction generally is initiated by the proposed investor. A party may give this "voluntary notice," to CFIUS, which will then begin a 30-day review of the proposed transaction. In the vast majority of cases, this initial review satisfies the concerns of the committee and the transaction proceeds forward. One of the significant changes brought about by FINSAs, however, is that entities owned by foreign sovereigns, including SWFs, are required to undergo the next step, a 45-day investigation. At the conclusion of the investigation, CFIUS will generally either recommend approval of the transaction, or may partially amend the transaction to satisfy the concerns of the committee members. This will be memorialized in a mitigation agreement, and is far more common than flat disapproval of a transaction. Of the more than 1500 transactions considered by CFIUS since 1988, only one transaction has been unwound after closing, and only a handful of other transactions have been withdrawn from the process.

In the wake of the congressional uproar over the Dubai Ports World debacle, which had passed CFIUS review, FINSAs mandates CFIUS to more

frequently report to Congress. Intending to foster confidence in the review process, final reports on transactions are delivered to congressional leadership, and, in the case of critical infrastructure, CFIUS must also transmit the report to the members of the House and Senate of the affected constituency.

Fear and apprehension often are heightened by the unknown, and the opaque practices of some SWFs have fed into some hostile rhetoric. An important step in warming the relationship between U.S. authorities and SWFs could be implementing the set of "Best Practices" for SWFs under development by the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD). Certain levels of disclosure and transparency are likely to be part of CFIUS approval for the transactions, as may be the SWF's agreement to maintain a passive role in the management of the firm. Since passive ownership appears to be the current intent of SWF investors, this may not be a difficult concession.

For a SWF seeking corporate control, or even a large stake, CFIUS review obliges careful consideration. The regulations generally presume that control does not exist in passive ownership stakes below 10% percent, but this safe harbor is far from absolute. Indeed, most entities have stayed well below 4.9%. Care should be taken that a sister SWF does not already have a significant stake in the company or project, such that combining their shares would top the 9.9% threshold for presuming control over the company. This may be an issue if the country has invested through multiple SWFs and, if so, this is likely to be addressed in the mitigation agreement.

Also critical to success is building trust through a

competent legislative strategy. In any large or highly visible foreign investment, a firm should consider efforts to reach out to "both ends of Pennsylvania Avenue."<sup>1</sup> Increasingly, potential foreign investment deal-builders are keeping in touch with congressional staff, in order to open lines of communication. With CFIUS now mandated to do the same, it will be important for an SWF investor to build

CHOOSING A PATH WISELY

SWF critics are ultimately concerned about the lack of a meaningful, compulsory "mechanism" to ensure compliance with the elemental standards of a healthy economy and related national security interests.

relationships in both the legislative and executive branches of the U.S. government. The fund must assuage concerns of all involved stakeholders, to include local officials, union representatives or the management of the target company. Selection of target assets will require similar strategy and forethought. SWF investors might be wise to begin with less sensitive sectors and demonstrate a good track record — allowing CFIUS to gain comfort and trust — before moving on to more potentially sensitive areas. One potentially advisable strategy would be to focus on investment within the less sensitive U.S. infrastructure sectors. First of all, this makes business sense. Financial analysts have recommended to SWFs a strategy that diversifies upon the anticipated inflow and outflow characteristics of their national accounts. They advise resource-rich countries to invest in firms and products from industrialized nations and in assets that cannot be shifted from those nations, whether it is intellectual or real property.<sup>2</sup>

Investing in capital-hungry

**CHOOSING A PATH WISELY**

U.S. infrastructure also avoids more sensitive sectors such as defense, telecommunications, or even financial services. Deficit-strapped governments in the U.S. are increasingly looking for ways to upgrade their infrastructure without significant government

in other investments.

Hurricane Katrina highlighted some U.S. vulnerabilities and FINSA now mandates stricter scrutiny for transactions involving "critical" infrastructure, such as oil and gas, but less so, perhaps, in the case of renewable energy infrastructure. As an intermittent source of energy, most renewable projects are less "critical" to energy security than a base-load power generation facility. They would presumably, therefore, generate less concern for CFIUS and energy regulators. Moreover, this environmentally-friendly investment will offer public relations benefits and may also serve as a hedge against global energy policy shifts.

SWF investment in the United States will not be easy. It will

require patience, foresight and acumen. SWFs must carefully select target assets. Early in the process, they must engage experienced counsel that can guide their investment strategy through all stages of the process: legislative, strategic, CFIUS, and other regulatory review mechanisms, all the way through the negotiations, contract drafting, and implementation stage of the investment. Undoubtedly, the path into the world's largest economy will present unusual pitfalls for an SWF, making the choice of a good path and guide all the more important. ■

**Footnotes:**

<sup>1</sup> Interview with Deputy Secretary of the U.S. Treasury Robert M. Kimmitt, Washington, DC, Mar. 18, 2008.  
<sup>2</sup> Bernard Lee, Robust Portfolio Construction in a Sovereign Wealth Context, in SOVEREIGN WEALTH MANAGEMENT 157, 159 (Jennifer Johnson-Calari ed., 2008).

**Sovereign Wealth Fund investment in the United States will require patience, foresight and acumen.**

outlays. Public-Private Partnerships may offer consistent and sustained returns for SWFs, who sometimes have investment horizons as long as one hundred years. The lack of liquidity in such investments may assuage national security concerns found



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## TAX CONSIDERATIONS

## Sovereign Wealth Funds: Tax Makes a Difference

By Jeffrey M. Trinklein

Although U.S. Treasury Department sources suggest that the term “sovereign wealth fund” has existed only since 2005, the United States Internal Revenue Code has included special provisions for certain sovereign funds since 1917. The preferential tax treatment for some sovereign funds has recently been a topic of increasing discussion on Capitol Hill, and no discussion of investment opportunities in the United States would be complete without considering the tax consequences of such investments, as well as debunking some myths that have arisen in public literature and Congressional testimony.

### NOT ALL SOVEREIGN WEALTH FUNDS ARE CREATED EQUAL

Congress enacted Section 892 to provide special rules for the taxation of foreign governments. Congress did not benefit all entities that trace their ownership to a foreign government. In its current form, the statute reserves its benefits only for “foreign governments”, which includes (i) the integral parts of a foreign government and (ii) to a limited extent, entities controlled by the foreign government. For example, the central bank of a foreign country will normally qualify; but the Delaware subsidiary of a state-owned oil company will not

*Jeffrey M. Trinklein is a Partner at Gibson, Dunn & Crutcher LLP. For additional information, visit [www.gibsondunn.com](http://www.gibsondunn.com).*

benefit from Section 892.

The statute also distinguishes between entities that are owned by the foreign government and entities that are owned by a ruler as the ruler's personal assets, although the line between the assets of the state and the assets of the ruler can sometimes be murky. Certainly not every “sovereign wealth fund” as proclaimed by the popular press will qualify for the special rules of Section 892.

### NOT ALL INCOME IS CREATED EQUAL

A sovereign fund that qualifies under Section 892 will generally enjoy the following benefits:

- Income from investments in stocks, bonds or other US securities will be exempt from tax.
- Gain from the sale of minority interests in REITs and in other real estate companies, known as “FIRPTA”<sup>1</sup> companies, will be exempt from US tax.

Section 892's benefits do not extend to all income:

- Commercial activity income is not covered.
- Investment income earned from a “controlled commercial entity” is not covered; for example, both dividend income received from a 50% or more owned US company and capital gains from the sale of a 50% or more interest in a FIRPTA<sup>1</sup> company are not covered.
- Control means not just ownership of 50% or more of the

relevant entity, but also includes a minority stake if the sovereign fund has “effective practical control” over the investment entity.

Sovereign fund investors need to understand whether they are investing as an “integral part” of a foreign government or as a “controlled entity.” Although both types of investors enjoy Section 892 benefits, different and more stringent rules apply to controlled entities. For example, a controlled entity with \$3 million of investment income

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Due to the sometimes sensational coverage given to “sovereign wealth funds”, proposals to change the applicable tax regime are unlikely to fade soon.

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and only \$1 of commercial activity income will lose the benefits of Section 892 on all of its income; but, an integral part of a foreign government in the same situation will pay tax on \$1 of commercial activity income, while still enjoying Section 892 benefits on its investment income.

Finally, if Section 892 does not apply, all is not lost. Sovereign funds may rely on other US laws to exempt certain income, including most capital gains on stock and interest earned on portfolio debt. Although income tax treaties also provide beneficial tax treatment, the US does not have any tax treaties with, for example, Saudi Arabia, Kuwait or the UAE, so Gulf-based sovereign funds are generally unable to reduce their taxes under an income tax treaty with the United States.

### NOT ALL COUNTRIES TREAT SOVEREIGN FUNDS EQUALLY

Other countries have different rules. For example, the UK adopts principles of sovereign

**SOVEREIGN WEALTH FUNDS: TAX MAKES A DIFFERENCE**

immunity, such that a foreign government is immune from UK tax on income earned in its governmental function, but it is not exempt on commercial income.

Furthermore, government-owned entities do not benefit from the immunity.

French law exempts foreign states and certain foreign state entities from French capital gains tax and the French 3% tax, and also exempts dividend income. Whether this legislation would apply to most sovereign funds is not always clear. Germany, on the other hand, has no specific rules in its domestic law dealing with sovereign funds or foreign governments.

**SCANNING THE HORIZON**

For many years, the US tax system has exempted all foreign investors from tax on certain passive income, in part to make our stock markets accessible to foreigners and to encourage passive foreign investment into our country. Section 892 provides additional limited exemptions to sovereign funds, and these exemptions have been very useful for US financial institutions seeking funding to shore up capital in this turbulent economy.

What lies ahead for sovereign funds in the area of US taxation? Section 892 may receive legislative attention in the United States in 2009 once the election cycle is finished, particularly if

Democrats are successful. Congress has already asked the New York State Bar Association to comment on possible changes to Section 892, but any legislative action will likely wait until the International Monetary Fund (IMF) and the World Bank conclude separate studies and announce their findings later this year. Due to the sometimes sensational coverage given to "sovereign wealth funds", proposals to change the applicable tax regime are unlikely to fade soon. ■

**Footnote:**  
<sup>1</sup>The Foreign Investment in Real Property Tax Act of 1980 (FIRPTA) is a law of the United States that applies to the sale of interests held by foreign corporations in real property located within the US.

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STATISTICAL ANALYSIS

# Sovereign Wealth Funds – Separating Fact from Fiction

By Drosten Fisher

From recent press articles, readers may get the impression that Sovereign Wealth Funds (SWFs) from the Middle East are intent on buying up US and European companies. From Barneys to Citibank and from the Mandarin Oriental to 230 Park Avenue, reports of SWFs investing billions of dollars into another well-known company or landmark building were issued constantly.

But, is this reporting really accurate? How many of these investment deals actually take place in emerging markets? Are the big name investments the exception or the rule?

Late last year, Monitor Group formed a team<sup>1</sup> to investigate SWF investment. Supported by Grail Research, a Monitor Group company, the team spent six months gathering information on publicly reported deals, interviewing senior officials from governments, financial institutions and sovereign wealth funds in the Middle East, and analyzing this data to

*Drosten Fisher works for the international strategy consultancy Monitor Group, in the National Economic Development and Security practice. He specializes in the Middle East and international investment. Prior to joining Monitor, Mr. Fisher was a researcher for former Director of Central Intelligence George Tenet on his memoir At the Center of the Storm. Mr. Fisher has lived and worked in the Middle East and speaks Arabic. For additional information, write to drosten\_fisher@monitor.com.*

identify important trends.

Before turning to the deal analysis, it is important to note that SWFs are discreet institutions, and much of their investment activity is private and unreported. Most estimates put the total funds controlled by SWFs as between \$2 trillion and \$3 trillion. About 10% of this amount, \$250 billion, is publicly reported and consists of direct investment in equities and real estate. While this is a relatively small percentage, we can only comment on what we can see.

Here is what we found.

*Middle Eastern Funds make up 1/3 of total SWF investments in publicly reported deals.*

Sovereign Wealth Funds have invested \$250 billion and carried out 785 deals since 2000. Of these, funds from the Middle East<sup>2</sup> have invested some \$100 billion and carried out 205 deals. The bulk of this

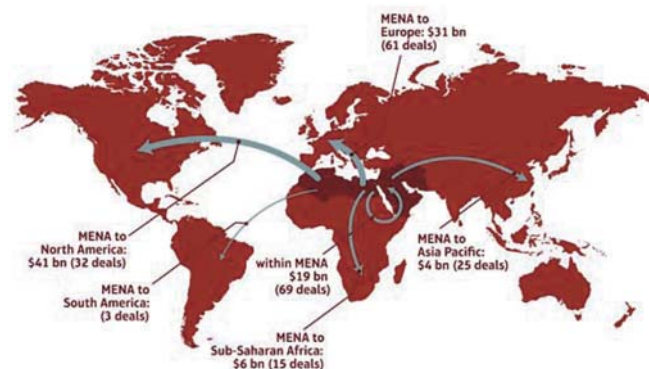
investment, \$72 billion, has been in North America and Europe. This would seem to confirm the stereotype. But the deal activity tells a different story. Over half of the deals by number were in emerging markets. Figure 1 shows the pattern of publicly reported direct investment by funds from the Middle East and North Africa (MENA).

*The most popular sectors for Middle Eastern SWF direct investments in publicly reported deals are real estate and financial services.*

Middle Eastern funds prefer certain regions when investing in different industry sectors. For financial services, the leading sector, and real estate, the funds bought more assets in North America and Europe. Out of a total of \$29 billion in financial services, \$13 billion flowed to North America, and \$13 billion to Europe. Out of a total of \$22 billion in direct investment into real estate, \$10 billion was in North America and \$5 billion was in Europe.

But for other sectors, such as industrials, the funds have targeted emerging markets, specifically in the MENA region.

**FIGURE I: DEALS BY MIDDLE EASTERN SWFS BETWEEN 2000 AND Q1 2008**



Source: Monitor SWF Transaction Database

**SOVEREIGN WEALTH FUNDS - SEPARATING FACT FROM FICTION**

In industrials, out of a total of \$9 billion, \$6 billion went to assets in MENA and \$3 billion in Sub-Saharan Africa.

*Different funds vary considerably in their publicly reported investment activity.*

There is a wide range of investment activity among the Sovereign Wealth Funds of the Middle East. Table 1 lists the

the Victoria and Alfred waterfront development in Cape Town. In the US, its real estate investments fall into three categories: gaming, hotels and apartment buildings. Perhaps surprisingly for a fund owned by an Islamic government, Istithmar has invested some \$5 billion in the gaming operator MGM, including a sizeable stake in the CityCenter project in Las Vegas. It has also made a \$3.6 billion investment in Kerzner International Holdings to develop a resort on the Strip.

In terms of deals in US hotels and apartment buildings, Istithmar has recently invested almost exclusively in high-end properties in New York. Among hotels, it bought the Mandarin Oriental for \$340 million, Knickerbocker Hotel for \$300 million and W Union Square for \$285 million. It also owns the Hotel Washington in Washington, DC. As for apartment buildings, Istithmar purchased 280 Park Avenue for \$1.2 billion, the Helmsley Building for \$1.1 billion, 230 Park Avenue for \$700 million and 450 Lexington Avenue for \$600 million.

In Europe, Istithmar has invested in high-end office buildings in and around London,

England. In London, Istithmar has bought the Shell-Mex building for \$1 billion and One Trafalgar Square for \$270 million. Slightly further afield, it acquired two business parks near the M25 motorway, in Addlestone and Staines. It also bought the Metropole, a London office building that formerly belonged to the Ministry of Defence. The fund has plans to convert it into a luxury hotel.

In late 2007, Istithmar transferred all of its hotel investments to Nakheel, a government-owned real estate company based in Dubai. Istithmar is in the process of transferring all of its real estate investments to Nakheel.

*In contrast to Istithmar, when investing in publicly reported deals, the Kuwait Investment Authority has made a small number of large deals.*

Since 2000, the Kuwait Investment Authority's total investment in the petrochemicals sector, \$9.5 billion, has been composed of just one deal. In late 2007, Dow Chemical announced that it would sell a 50% stake in five of its petrochemical businesses to a Kuwaiti company and form a

**In publicly reported deals, Middle Eastern funds make up a third of total Sovereign Wealth Funds investment.**

Middle Eastern funds, by total deal value.

What companies do these funds invest in when they do deals? Let's look in more detail at some of the top funds.

*Istithmar, the Dubai fund, in publicly reported deals invests mainly in real estate in the US and Europe.*

The exception to Istithmar's noted investment pattern is South Africa, where the fund has recently invested \$2 billion in

**TABLE 1: MAJOR MIDDLE EASTERN SWFS RANKED BY DEAL VALUE (2000-Q1 2008)**

| Fund Name                   | Region    | Number of Deals | Main Sector for Deals (\$ billion) | Total Value of Deals (\$ billion) |
|-----------------------------|-----------|-----------------|------------------------------------|-----------------------------------|
| Istithmar                   | Dubai     | 63              | Real Estate (15)                   | 28                                |
| Mubadala                    | Abu Dhabi | 34              | Industrials (9)                    | 20                                |
| ADIA                        | Abu Dhabi | 16              | Financial (9.5)                    | 16                                |
| Kuwait Investment Authority | Kuwait    | 13              | Petrochemicals (9.5)               | 13                                |
| Qatar Investment Authority  | Qatar     | 22              | Financial (4)                      | 12                                |
| DIFC                        | Dubai     | 11              | Financial (8.5)                    | 9                                 |
| Libyan Investment Authority | Libya     | 44              | Financial (1)                      | 2                                 |
| Iran Foreign Exchange Fund  | Iran      | 2               | Telecom (0.3)                      | 0.3                               |
| <b>Total</b>                |           | <b>205</b>      |                                    | <b>100</b>                        |

new petrochemical venture. The joint venture will be based in the US and will employ more than 5,000 people worldwide.

Large investments seem to be part of Kuwait's style. In addition to the joint venture, the Investment Authority is the largest shareholder in the German car manufacturer Daimler AG, holding a 7% stake worth some \$8 billion. It also invested \$2 billion in Merrill Lynch in a publicly reported deal in early 2008.

*Mubadala's investment style in publicly reported deals is a mix of very large investments and much smaller investments targeting strategic sectors.*

In common with Kuwait, Mubadala has made a small number of large investments. Its \$9 billion investment in the industrial sector consists of just two deals: (1) \$6 billion for an aluminum smelter in Dubai and (2) \$3 billion for an aluminum smelter in Guinea.

Mubadala has also recently invested in energy and financial services. It invested \$5 billion in the Algerian energy company, Sonatrach, and \$1.3 billion in the Carlyle Group, a 7.5% stake.

However, its most intriguing investments recently have been in the aviation, automotive and high tech sectors. Mubadala purchased a 40% stake in the Swiss aviation company, SR Technics, for \$1.3 billion and also holds a 35% stake in the Italian aviation company, Piaggio Aero Industries. It also invested \$137 million for a 5% stake in the Italian automotive company, Ferrari, and \$600 million in the US high tech chip manufacturer, AMD. Despite talk of the political backlash against SWF investments in strategic sectors, the AMD deal sailed through quietly, a tribute

perhaps to the diplomatic skills of Abu Dhabi and the UAE.

*Middle Eastern sovereign wealth funds are likely to increase their investments in the coming years, targeting a wider range of sectors and countries.*

What does Monitor Group expect for the future of SWF investments from the Middle East? First, these funds are likely to increase the total amount of their investments. Existing funds are likely to allocate more to direct investments and countries currently without funds, such as Saudi Arabia, are likely to set them up. Sovereign Wealth Funds will increasingly be major players in the international investment community.

SWFs are also likely to diversify their investments, both by sector and geography. At present, most publicly reported investments by value are concentrated in the US and Europe, in just two sectors: financial services and real estate. Expect the funds to become more adventurous, both in their terms of sector and also location. The funds are likely to increase their investments in the MENA region, and in emerging markets in Asia, Africa and elsewhere.

Finally, we expect the funds to become more discerning and sophisticated investors, diversifying into such areas as early stage investment, and also into private equity and more complex financial structures and instruments. As the Middle East continues to attract top financial talent from the US and Europe, it may not be too long before we see the first sovereign hedge fund.

*People interested in doing business with Middle Eastern SWFs should develop deep, personal relationships.*

The Middle Eastern funds know they are in a privileged position of possessing capital at a time of a global shortage. They also have an uncanny ability to spot opportunists trying to make a quick buck, and will have nothing to do with them.

What are the implications for people trying to do business with SWFs? A senior manager at a Middle Eastern SWF once told me, "Try and get to know us. Try and understand what we are looking for, what we value, and bring us opportunities that fit."

**SOVEREIGN WEALTH FUNDS - SEPARATING FACT FROM FICTION**

## People interested in doing business with Middle Eastern Sovereign Wealth Funds should develop deep, personal relationships.

Rather than simply firing opportunities the fund's way, it is better to invest time in forming a personal relationship based on trust. The funds are not in any kind of hurry and neither should those interested in doing business with them. If an interested party does not have the right personal connections however, he or she should approach the fund through a trusted intermediary. ■

### Footnotes:

<sup>1</sup> Consisting of (alphabetically): Davis Dyer, Drosten Fisher, Tony Goldner, Loic Lagarde, William Miracky and Vicente Piedrahita.

<sup>2</sup> Abu Dhabi Investment Authority (ADIA); Dubai International Financial Center (DIFC); Iran Foreign Exchange Fund; Istithmar; Kuwait Investment Authority (KIA); Libyan Investment Authority; Mubadala; Qatar Investment Authority (QIA)

RECENTEVENTS

Celebrate ABANA's 25th Anniversary!

**MARCH 13, 2008**  
**MARKET OUTLOOK & ENERGY SPOTLIGHT**

General Member Luncheon with Marvin Schwartz, Vice Chairman, Neuberger Berman  
*Sponsor: Neuberger Berman  
Lehman Brothers Executive Offices  
New York City*



(l-r) Raza Dean, Magda Albina and Sherif Hanna



(l-r) Marvin Schwartz, Kitty Cushing and David Weiner



(l-r) Jack Rivkin and Barbara Heyman

**APRIL 9, 2008**  
**ABANA AT ILILI RECEPTION**  
*Ilili Restaurant & Lounge  
New York City*



(l-r) Zeenab Razak, Dima Ghossaini, Hazar Sbinati and Ayesha Nabi



(l-r) P J Homsy, Dilip Massand and Samir Seraphim



(l-r) Mayada El-Zoghbi and Roop Chand Betala

**MAY 12, 2008**  
**ABANA ANNUAL CONFERENCE ON CURRENT TRENDS IN GULF INVESTING**  
*New York Athletic Club  
New York City*



(l-r) Tarek Abdel-Meguid, Wael Bayazid, Udaibir Das and Emad Tinawi



(l-r) Robert Seber, Ziad Makkawi, Jeanne Archibald, Mahmoud Mamdani and Mahmoud Saleh



(l-r) Stephen Ranzini, Shakyh Yusuf DeLorenzo, Usama DeLorenzo and Isam Salah

**JUNE 11, 2008**  
**ABANA ANNUAL SUMMER CELEBRATION**  
*Bryant Park Grill  
New York City*



(l-r) Salim Abboud, Mireille Andrea and Fedah Dahdul



(l-r) Enoch Lawrence, Anisa Keith and Samer Saleh



(l-r) Karim Tabet, Wa'el Chehab, Leila Ezzarqui and Rania Agha

For more details on recent events, including web casts, distributed materials and additional photos, visit [WWW.ARABBANKERS.ORG](http://WWW.ARABBANKERS.ORG).

## RECENTEVENTS

Celebrate ABANA's 25th Anniversary!

2008 ABANA ANNUAL CONFERENCE

**On Current Trends in Gulf Investing**

By Adepeju Adeyemo

The rise of Middle East sovereign wealth funds, the developments in cross-border investments between the region and the US and the latest trends in Islamic Finance were the focal topics of this year's ABANA annual conference.

For the suitably-titled Current Trends in Gulf Investing conference, held on May 12 in New York City, a variety of topical and prominent speakers gathered to look at recent developments in the global capital markets which focused worldwide attention on investments into and out of the Middle East.

Mahmoud Salem, the Master of Ceremonies, started the half-day program with greetings to the audience. Mr. Salem, a Vice President and Head of Middle East DR Business at The Bank of New York Mellon, also gave a brief introduction about the conception and development of the event.

Following his remarks, audience members were treated to an in-depth analysis of the exciting developments in Gulf investing by three panels made up of industry specialists.

The first panel of experts, which included Perella Weinberg's Tarek Abdel-Meguid, Carlyle's Wael Bayazid and the IMF's Udaibir Das and was moderated by Monitor Group's Emad Tinawi, examined the historic rise of the sovereign wealth funds in the Middle East and their

*Adepeju Adeyemo is the Senior Programs Coordinator at ABANA. To learn more, visit [www.arabbankers.org](http://www.arabbankers.org).*

widespread effect on cross-border investments, so far.

Adding on to this examination, the second panel of speakers investigated how the investment patterns of these funds have reshaped the market. Mahmoud Mamdani, Vice Chairman of Middle East Investment Banking at Morgan Stanley, led the discussion with a short opening which he followed up with questions directed at and answered by Jeanne Archibald, Partner at Hogan & Hartson, Ziad Makkawi, Algebra Capital's CEO, and Robert Seber, Partner at Vinson & Elkins.

Finally, the speakers on the third panel explored the impact of the latest market trends on investments in the Islamic finance industry. Isam Salah, the panel moderator and a Partner at King & Spalding, led the interactive conversation with Usama DeLorenzo of Saturna Capital, renowned Shari'ah scholar and advisor Shaykh Yusuf DeLorenzo, also Chief Shariah Officer at Shariah Capital, and Stephen Ranzini, President and CEO, University Bancorp.

After the panel discussions, the conference luncheon was held. During this afternoon session, Laura Osman, ABANA's President and a Senior Managing Director and Portfolio Manager at Concord International Investments Group, gave a warm welcome to William R. "Bill" Rhodes, the keynote speaker. Mr. Rhodes, a Senior Vice Chairman at Citi and the Chairman, President and Chief Executive Officer of Citibank, then followed and closed the event with his



Citi's William Rhodes presents the keynote address at the 2008 ABANA Conference.

address on financial development in the US. In keeping with the theme of the conference, his presentation focused particularly on the impact of the sovereign wealth funds of the region.

ABANA was proud to explore the significant issues arising from emergent investment trends in the Gulf region during its conference, especially from the varied perspectives of the investors, issuers, advisors, regulators, policy makers and decision-makers who participated and presented. That such a summit occurred in 2008 is particularly significant as the association celebrates its twenty-fifth anniversary of fostering relations, information-sharing and understanding between the Arab and American public and private financial sectors.

The May 12th conference

was made possible due, in large part, to the time and effort committed by the event's organizing team and the generous support provided by the forum's sponsors: AB Capital, Algebra Capital, Arab Banking Corporation, Concord International Investments Group, Hogan & Hartson, Morgan Stanley, Navigant Consulting, Saturna Capital, The Bank of New York Mellon and Vinson & Elkins.

In the end, the forum brought together more than 100 executives from the Arab and American financial industry, offering an exclusive promotional and educational experience.

To obtain more information about the conference, including speaker biographies and sponsor profiles, visit [www.arabbankers.org](http://www.arabbankers.org). ■

PEOPLENEWS

**ABANA HONORS  
MASHREQ'S ABDUL AZIZ  
AL-GHURAIR WITH ITS 2008  
ACHIEVEMENT AWARD**

On Tuesday, October 14, 2008, ABANA will present its Achievement Award to Abdul Aziz Abdullah Al-Ghurair, Chief Executive Officer, MashreqBank, for his business acumen, dedication to excellence and substantial achievements.

Since 1986, this award has been granted annually to an individual or group that has made a significant and lasting contribution in the fields of banking, investment and financial services in the Arab world, or an individual of Arab descent who has made equally considerable contributions to the field. Candidates have been chosen based on the breadth and depth of their achievements in economic development and charitable and public service. Previous award recipients have included the Lebanese banking system represented by H.E. Riad Salamé, Dr. Mohamed El-Erian, Faisal Hamad Al Ayyar, Lubna Olayan, Dr. Richard Debs and Prince Alwaleed Bin Talal.

Mr. Al-Ghurair joined Mashreq in 1977, working in a progressive capacity till he acquired his leading post in 1991. He is also president of Al-Ghurair City, chairman of Masafi Mineral Water Company and director of Abdulla Al-Ghurair Group of Companies. Mr. Al-Ghurair is on the board of the Dubai Chamber of Commerce and Industry, the Economic Council of Dubai and a member of the Governing Council of Dubai's Higher Colleges of Technology. In August of 2006, Mr. Al-Ghurair was appointed chairman of the Arab Business Angels Network. Mr. Al-Ghurair, a native of the United Arab Emirates, holds a Bachelor's in Engineering from California State Polytechnic University in the United States. ■

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*ABANA is pleased to welcome our new individual members.*

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\* Mergermarket reported announced M&A transactions for buyers, sellers or targets GCC region.

\*\* As above. 1st Half 2008.

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May 2008

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It is in the markets of the MENA region, which now surpass over a trillion dollars in market capitalization, that Beltone Enclave Securities offers local trading execution expertise and specialized company research coverage for the stock markets of Abu Dhabi, Amman, Bahrain, Beirut, Cairo, Doha, Dubai, Casablanca, Kuwait, Muscat and Riyadh. Beltone Enclave is dedicated to and was formed to provide North American institutional investors with access to MENA, and is the first U.S.-based registered broker dealer dedicated solely to these exciting new markets.

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**P**eltz Capital Management is a private independent investment advisor that manages both active and passive investments for its clients and investors. Active investments are managed through private partnerships and passive investments are managed through fund of hedge fund structures.

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JER was one of the first to expand real estate investment and asset management into Europe (1995), was among the first to participate in the establishment of the U.S. CMBS market (1996), and continues to be one of the leading special servicers of CMBS in the U.S. (has the highest special servicer ratings from Standard & Poor's and Fitch Ratings). JER enhanced its window into the debt market by forming JER Investors Trust, a specialty finance company that invests in a variety of commercial real estate structured finance products. A private placement of JER Investors Trust (2004) was followed by an initial public offering (July 2005, NYSE:JRT).

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