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FOREWORD



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The global investment landscape is evolving at an unprecedented pace, driven by shifting economic power, strategic capital allocation, and technological innovation.

A central theme in this issue is the dynamic role of sovereign wealth funds (SWFs) across major markets. In Asia Pacific, investors are moving from a cautious, watchful stance to a more active engagement with artificial intelligence, recognizing the transformative

potential of these technologies in shaping investment strategies and portfolio construction. Similarly, Gulf SWFs are pursuing a strategic global expansion, leveraging their scale and long-term investment horizons to identify opportunities across sectors and geographies, reinforcing their position as key drivers of international capital flows.

Meanwhile, in the US, sovereign wealth funds are increasingly investing domestically,

attracted by the stability, depth, and innovation of American markets. These inflows are not only supporting infrastructure and growth-oriented sectors but are also influencing the competitive dynamics of the investment ecosystem. In the UK, evolving tax frameworks in a multilateral environment are reshaping cross-border investment considerations, underscoring the importance of regulatory insight and proactive planning for global investors.

These developments are accompanied by broader strategic challenges and opportunities. As SWFs become more technologically sophisticated, data-driven, and globally interconnected, they must navigate considerations around governance, risk management, and geopolitical context. Simultaneously, the drive toward responsible and sustainable investing continues to shape decision-making, demanding a careful balance between financial returns,

environmental stewardship, and long-term societal impact.

This edition examines these trends and more, offering a comprehensive look at the forces shaping the future of global capital allocation. We hope the perspectives shared here will serve as a valuable guide for investors, policymakers, and industry professionals navigating a rapidly transforming investment landscape.



Tax in a multilateral world

OPPORTUNITIES AND CHALLENGES FOR SWFS
AND THEIR PUBLIC MARKET INVESTMENTS



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INTRODUCTION

The global landscape for sovereign wealth funds (SWFs) is undergoing a period of significant transformation driven by a complex interplay of economic pressures, technological advancements, and evolving international regulatory frameworks. Each source country has its own rules and requirements that continue to change, and this lack of harmonization and stability makes it difficult to implement a consistent, proactive, and strategic approach across the SWFs' holdings.

Thus, to optimize investment returns, SWFs must approach today's global tax landscape with care. In some jurisdictions,

like the United States, claiming withholding taxes (WHT) relief can be as simple as submitting a single form to obtain relief at source. However, in other countries, particularly across Europe, claiming relief may involve lengthy and intricate processes, often only resulting in partial refunds of withheld tax. Naturally, managing these tax processes has become a growing operational challenge.

This article provides a snapshot of the five key forces influencing the current environment for SWFs in the public markets space as well as thoughts for the future.

Governments acting to attract overseas capital

On the one hand, many governments actively court foreign investment. This can happen in many ways, including tax exemptions, reduced WHT rates, and streamlined processes for claiming tax relief. In a public consultation published by the [European Commission](#) in 2023, 89% of respondents strongly agreed that WHT refund processes are hindering cross-border investment in the EU¹. As such, streamlining measures could position a country as a favorable investment destination, attracting capital flows that can stimulate economic activity and create jobs.

China provides a relatively recent example of this in the public markets space. In 2024, with the intention of promoting foreign investment, China introduced a new WHT relief-at-source system for qualified foreign institutional investors, which specifically applied to their A Share investments. This streamlined the application of double tax treaty relief, reducing the significant administrative and cost burdens of the previously complex WHT reclaim process.

On the other hand, many governments are looking to increase tax revenues and strengthen anti-avoidance legislation. This leads to increasing scrutiny of WHT relief claims, and enhanced documentation requirements in many markets.

This duality can present a complex challenge for SWFs to manage WHT in global portfolios. It is particularly relevant for SWFs in the public markets space, where



listed assets will often form a significant portion of their global portfolio. Further complexity arises for SWFs that also operate securities lending programs. Simply reacting to changes in tax legislation is no longer sufficient; a proactive and strategic approach is essential.

Scrutiny of beneficial ownership

We have recently seen a surge in high-profile financial scandals. The German Cum/Ex and Cum/Cum scandals led to an estimated tax revenue loss of approximately US\$9.8 billion and US\$152.3 billion, respectively², and a WHT fraud case in Denmark resulted in losses of approximately US\$1.84 billion³. Both events have highlighted potential vulnerabilities in international WHT systems, leading some governments to act swiftly with a decisive range of new measures aimed at improving transparency, strengthening compliance requirements, and increasing the burden of proof on taxpayers claiming tax relief.

These responses could also include a significant tightening of rules related to beneficial ownership. We have seen some tax authorities demanding greater transparency regarding the ultimate beneficial owners of investments. This strengthens the emphasis

on demonstrating economic ownership and thus requires robust due diligence processes and meticulous record-keeping. We have also seen a marked shift in the burden of proof in some countries. Previously, many tax authorities often bore the burden of proving that tax relief was not legitimately due. Now, however, investors are increasingly required to proactively demonstrate their entitlement to tax relief, providing substantial evidence to support their claims. This can also significantly increase the compliance cost and demand more rigorous documentation and record-keeping.

The role of custodians and advisors

SWFs employ the services of custodian banks to hold and operate their global public market investments. As part of their service, custodians typically offer tax relief and reclaim support. This is predominantly provided in markets where there are clear and mature procedures in place for the application of

tax relief; otherwise, local tax advisors can be required.

Considering the developments we are seeing from tax authorities—whether relief applications are being made via the custodian, or independently with external tax advice—SWFs should anticipate increasingly onerous documentation requirements from authorities for the service they are receiving.

Coordination across what might be multiple custodians, internal teams, and advisors involved in WHT management is another challenge, involving the management of deadlines for reclaims, responses to tax authority inquiries, and gathering the required information. In some cases, a claim may have been made many years in the past before it is processed, and questions are raised. As a result, as tax authority audits and questions become more common, SWFs should be prepared to defend exemption positions and reclaims made in real time. This requires the right records, governance, and processes in place, and easy access to data and documentation held internally or by their custodians.

¹European Commission, [Impact Assessment Report: New EU system for the avoidance of double taxation and prevention of tax abuse in the field of withholding taxes \(WHT\)](#), pg.6, 19 September 2023.

²European Commission, [Impact Assessment Report: New EU system for the avoidance of double taxation and prevention of tax abuse in the field of withholding taxes \(WHT\)](#), pg.7 and pg.8, 19 September 2023.

³European Commission, [Impact Assessment Report: New EU system for the avoidance of double taxation and prevention of tax abuse in the field of withholding taxes \(WHT\)](#), pg.31, 19 September 2023.

Transparency of tax reporting and oversight

Layered on top of the above, the international cooperation between tax authorities has improved noticeably. This collaborative approach can reduce tax avoidance as well as increase the efficiency and accuracy of both compliance and enforcement.

Global information reporting initiatives, like the Foreign Account Tax Compliance Act, Common Reporting Standard, and Mandatory Disclosure Regime, are providing tax authorities with significantly enhanced capabilities, especially when coupled with increased use of data analytics and AI. The sheer volume of data available to tax authorities is increasing exponentially,

allowing for more sophisticated analysis and targeted audits. A recent practical example can be seen in Austria, where their Predictive Analytics Competence Centre utilized predictive analytics and AI to analyze 6.5 million cases across a range of taxes and recovered approximately US\$214 million in tax revenue for 2023⁴. Regarding WHT specifically, legacy systems in the EU have been struggling on several fronts. After launching their public consultation, the European Commission found that for over half of the organizations surveyed it could take over two years for WHT to be refunded. Smaller scale investors often suffered disproportionately, leading to 70% of retail investors rejecting the opportunity to claim reduced WHT rates to which they were entitled⁵.

In response to these findings, the European Commission is

introducing a multi-national Faster and Safer Relief of Excess Withholding Taxes initiative⁶; this will introduce more digitization, more reporting and diligence obligations for intermediaries, and implementation of fast track WHT reclaim procedures from 2030. The practical impact of this on SWFs, however, will not become fully clear until EU member states begin to implement new rules.

ensure they are receiving any relief to which they are entitled.

Developing robust systems, controls, and audit readiness to respond to increasing scrutiny from tax authorities, particularly where securities lending programs are in use.

Considering existing compliance bottlenecks, and seeking out opportunities to introduce future-proof, scalable, tech-enabled solutions to combat these.

Regardless of the chosen approach, one thing is clear: Managing WHT in an increasingly complex global WHT landscape for public markets investments is no longer simply a back-office function, but a key part of preserving investment returns. The most effective SWFs in this space will be those that treat WHT as a strategic capability, rather than a simple compliance process.

Use of technology

To effectively navigate this complex and rapidly evolving environment, technology is key. Automated systems for data management, reporting, and tax reclaim processes can all make a real difference to the level of manual work required. AI-powered data checks, automated form population and monitoring, and tracking WHT positions in real time can reduce the risk of missed reclaim opportunities. Tax data can also be integrated into broader portfolio management tools to provide greater investment insights.

Emerging technologies are expected to reshape the future WHT landscape as tax authorities advance their digitization efforts, enabling more sophistication in auditing claims and assessing critical areas like substance and beneficial ownership.

CONCLUSION

It will be a combination of governance, technology, and a forward-looking outlook that can reduce tax leakage and transform operational complexity. For SWFs operating in this sector, significant long-term value can be gained from the following:

Centralizing WHT governance and introducing processes that



⁴ Federal Ministry Finance Republic of Austria, ["Brunner: Ministry of Finance generated around EUR 185 million in tax income from AI in 2023,"](#) 9 August 2024.

⁵ European Commission, [Impact Assessment Report: New EU system for the avoidance of double taxation and prevention of tax abuse in the field of withholding taxes \(WHT\)](#), pg 8, 19 September 2023.

⁶ European Commission, ["FASTER Directive: A Council Directive on faster and safer relief of excess withholding taxes,"](#) (n.d.).

TO THE POINT

Global withholding tax (WHT) compliance is becoming increasingly complex. While many sovereign wealth funds (SWFs) benefit from exemptions and favorable double tax treaties, achieving these benefits is not only reliant on eligibility, but managing operational processes. Scrutiny of WHT relief claims is intensifying globally, and technology is transforming capabilities in house and at tax authorities. As a result, SWFs investing in international public markets must be proactive in determining how they respond.

Expanding Horizons: GCC SWFs at the Forefront of a strategic global expansion



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INTRODUCTION

During the 2008 global financial crisis, GCC SWFs had a reputation as lenders of last resort, supporting large Western financial institutions. They acquired distressed iconic assets across the United Kingdom and France and provided a stable source of capital across industries in Europe and the United States.

Forged from the region's vast oil and gas revenues, these colossal pools of capital have long been a familiar presence on the global financial landscape for decades, but their attention was largely on the developed and stable economies of the West.

As they grow in size and influence, however, that traditional focus on the transatlantic axis is evolving into a multipolar strategy that looks with equal measures of ambition and purpose to the dynamic economies of Asia, Africa, and beyond.

Today, the GCC SWFs collectively manage almost US\$6 trillion in assets under management, more than 40% of the global total, according to Global SWF¹. That growth trajectory is expected to continue, making them a dominant force in the world of global finance. Abu Dhabi's Mubadala was the largest sovereign-

owned investor globally last year, deploying US\$29 billion across 52 deals, a 67% increase from the previous year².

Driven by economic and geopolitical imperatives, GCC SWFs are leveraging this financial power to expand their political influence, emerging as proactive, purpose-driven investors targeting future-focused sectors from biotech to AI. Their rise is part of a global trend: the number of SWFs worldwide has more than tripled since 2008, with assets exceeding US\$14 trillion³. Both the size and number of deals are trending upward, reinforcing the GCC's push toward new investment frontiers.

This increased global competition is reinforcing the GCC's push toward new investment frontiers. Burgeoning trade ties with India and China are creating new opportunities for state-owned GCC investors seeking exposure to high-growth economies. GCC SWFs are increasingly partnering with the investment vehicles and programs of host nations, opening representative offices and building enduring alliances that bolster both their diplomatic and financial clout.

¹Global SWF. SWF Tracker. (Accessed 2025, October 8. <https://globalswf.com/>.

²Global SWF. "2025 Annual Report: State Investors Soaring to New Heights." January 1, 2025.

³Global SWF. (Accessed 2025, October 8). SWF Tracker. <https://globalswf.com/>.



The Middle East's much-vaunted 'pivot to Asia' is easy to overstate

Yes, GCC SWFs are allocating more capital to Asia: Saudi Arabia's Public Investment Fund (PIF) signed memoranda of understanding worth US\$50 billion with six Chinese firms last year⁴. China's Dahua Technology signed a deal with PIF's Alat to create a US\$200 million manufacturing hub in the kingdom⁵. There are many examples, but

these investments continue to be eclipsed by capital deployments in developed economies.

Take Mubadala, for example. Around 85% of the capital it deployed last year went to developed markets. Out of those, 57% went to the United States, according to Global SWF⁶. Meanwhile, PIF took stakes in London's Heathrow⁷ airport and iconic luxury retailer Selfridges⁸.

The trend is clear: while the United States and the United Kingdom remain preferred destinations, GCC SWFs are fundamentally evolving, and

their geographical expansion is poised to accelerate.

This article examines the forces driving this shift and their implications for the future.

The strategic imperative: Why are GCC SWFs expanding

Historically, GCC SWFs pursued a straightforward strategy. They acquired prestige assets in London and other global financial hubs and seek stable,

passive returns. Saudi Arabia focused on US Treasury bonds,⁹ supporting both the dollar and long-standing economic alliances¹⁰.

For decades, this strategy served its purpose: preserving wealth for future generations. That approach began to evolve as GCC nations developed and younger leaders took the helm, rolling out ambitious plans to transform their economies and prepare for a time after oil.

Building the infrastructure, cities and industries to nurture post-oil economies requires significant investments but is anticipated to generate



⁴Global SWF. "2025 Annual Report: State Investors Soaring to New Heights." January 1, 2025.

⁵Public Investment Fund. "PIF Completes Its Acquisition of 15% Stake in Heathrow Airport." Press Release. December 12, 2024. <https://www.pif.gov.sa/en/news-and-insights/press-releases/2024/pif-completes-its-acquisition-of-15-stake-in-heathrow-airport/>

⁶Public Investment Fund. "PIF Forms Partnership With Central Group In Selfridges." Press Release. October 7, 2024. <https://www.pif.gov.sa/en/news-and-insights/press-releases/2024/pif-forms-partnership-with-central-group-in-selfridges/>

⁷US Department of the Treasury. "Archives of TIC Monthly Releases." <https://home.treasury.gov/data/treasury-international-capital-tic-system/tic-press-releases-by-topic>

⁸Khuchandani, Aditi. "Economic Implications of the Petrodollar Agreement." *Isr Journal Of Economics And Finance*, Volume 15, Issue 3 Ser.1 (May. – June. 2024)

⁹Bloomberg. "Saudi Arabia and MBS are far from Breaking their Reliance on Oil." Abeer Abu Omar, Christine Burke. July 30, 2025. <https://www.bloomberg.com/news/articles/2025-07-30/saudi-arabia-and-mbs-are-far-from-breaking-their-reliance-on-oil>

¹⁰ADIA. "ADIA and APG Invest in Trans Java Toll Roads Alongside INA." Press Release. January 10, 2024. <https://www.adia.ae/en/publications/news/adia-and-apg-invest-in-trans-java-toll-roads-along>



long-term returns. As part of Vision 2030, Saudi Arabia unveiled real estate and infrastructure projects worth over US\$1.3 trillion¹¹.

SWFs like PIF and Abu Dhabi Investment Authority (ADIA) have become primary investment vehicles for these transformations, seeking returns that hedge against oil price fluctuations. Saudi Arabia, for instance, requires crude above US\$90 to cover expenditures this year, according to Bloomberg Economics, while benchmark Brent has averaged just over US\$68 this year¹².

The pursuit of higher returns also aligns with broader geopolitical hedging as China and India rise economically. In late 2023, the United Arab Emirates joined the BRICS+, a bloc of emerging economies—including Brazil, India and China—aiming to counterbalance US-led institutions. Concurrently, Western restrictions on GCC investments in some strategic sectors in the West—such as the United Kingdom forcing Abu Dhabi-backed international media institute to dramatically reduce its stake in The Telegraph—are reinforcing this strategic realignment¹³.

Against that backdrop, GCC governments, with vast

resources, small populations, and central geographic positions, are leveraging SWFs as instruments to secure a larger role on the global stage.

Eastward bound: Tapping into Asia's growth engine

The most dramatic shift has been toward the vast, growing and technologically advanced economies of Asia. India and China, which alone accounted for nearly half the world's economic growth in 2023, according to the International Monetary Fund's (IMF) World Economic Outlook¹⁴.

GCC SWFs invested US\$9.5 billion into China in September 2024. ADIA and the Kuwait Investment Authority (KIA) are now ranked among the top 10 shareholders in Chinese A-Share listed firms¹⁵. ADIA and Mubadala were part of a consortium that invested US\$8.3 billion in China's biggest mall manager¹⁶.

Investments are also flowing into India and Southeast Asia, targeting sectors like tech and AI, logistics, infrastructure, and renewables.

Where once they oversaw their global investments from offices

in London and New York, GCC SWFs are increasingly setting up representative offices in China and other key Asian centers.

ADIA announced last year it was opening an office in Gujarat International Finance Tec City to oversee current and future investments in India.

It's been particularly active in Southeast Asia, partnering with the Indonesia Investment Authority on the Trans Java Toll Roads platform¹⁷ and joining a consortium that acquired Malaysian Airports Holdings in February¹⁸.

Asia will likely see more investment as trade surges. The Asia House think tank predicts GCC trade with emerging Asia will rise from US\$450 billion in 2023 to US\$680 billion in 2030. GCC-China trade is expected to surpass combined trade with the United States, the United Kingdom and Western Europe by 2027¹⁹.

Strategic agreements like the UAE-India CEPA (Comprehensive Economic Partnership Agreement) further facilitate capital flows, and it seeks to replicate this in Southeast Asia.

GCC SWFs are also increasingly co-investing with counterparts

across Asia and co-investing in Africa in mutually beneficial strategic opportunities.

Investment diplomacy takes precedence in Africa

Strategic considerations drive GCC investments in Africa, spanning ports, mining, renewables, and agribusiness. State-owned GCC companies are boosting their presence, propelled by a race for resources, food security and political influence.

In 2023, GCC investments in Africa exceeded US\$50 billion, with the United Arab Emirates emerging as the fourth largest direct investor. DP World, a global logistics and port operator headquartered in Dubai, United Arab Emirates, operates seaports in Angola, Djibouti, Egypt, Morocco, Mozambique, Senegal, and Somaliland.

Egypt has become a major focus. Last year, Developmental Holding Company (ADQ) led a US\$35 billion investment, including rights to a mega-project at Ras El Hekma on the North Coast²⁰. In May, Abu Dhabi Ports Group partnered with the Suez Canal Economic Zone to develop an industrial

¹¹Global Infrastructure Partners. "Global Infrastructure Partners (GIP) in Partnership with ADIA, Khazanah/UEM Group, and EPF, Announces Successful Offer for Malaysia Airports Holdings Berhad." Press Release. February 4, 2025. <https://www.global-infra.com/news/global-infrastructure-partners-gip-in-partnership-with-adia-khazanah-uem-group-and-epf-announces-successful-offer-for-malaysia-airports-holdings-berhad/>

¹²Gulf Business. (2024, August 1). Saudi's PIF inks MoUs worth \$50bn with financial entities. Gulf Business. <https://gulfbusiness.com/saudis-pif-inks-mous-with-financial-institutions/>

¹³Dahua Security. (2024, February 20). Dahua launches innovative products and solutions at Intersec 2024. Dahua Security. <https://www.dahuasecurity.com/newsEvents/pressRelease/9661>

¹⁴Bloomberg. (2024, September 10). Saudi Arabia's Vision 2030 projects reach \$1.3 trillion in value. Bloomberg. <https://www.bloomberg.com/news/articles/2024-09-10/saudi-arabia-s-vision-2030-projects-reach-1-3-trillion-in-value>

¹⁵Ministry of Foreign Affairs (UAE). (2024, August 25). UAE welcomes invitation to join BRICS group. Ministry of Foreign Affairs (UAE). <https://www.mofa.gov.ae/en/mediahub/news/2023/8/25/25-8-2023-uae-brics>

¹⁶International Monetary Fund. (2023, January 31). Transcript of World Economic Outlook Update press briefing. International Monetary Fund. <https://www.imf.org/en/News/Articles/2023/01/31/tr-13123-world-economic-outlook-update>

¹⁷Deloitte. (n.d.). Gulf sovereign wealth funds lead global growth as assets forecast to reach USD18 tn by 2030. Deloitte Middle East. <https://www.deloitte.com/middle-east/en/about/press-room/gulf-sovereign-wealth-funds-lead-global-growth-as-assets-forecast-to-reach-usd18-tn-by-2030.html>

¹⁸PAG. (2024, March 30). PAG, CITIC Capital, Ares join forces with PAG, CITIC Capital, Ares join forces with ADIA subsidiary and Mubadala to invest in Newland Commercial Management, the largest shopping mall manager in the world. PAG. <https://www.pag.com/en/pag-citic-capital-ares-join-forces-with>

¹⁹Asia House. (2024, December 5). The Middle East pivot to Asia 2024: Growing Gulf-Asia cooperation in a new era. Asia House. <https://www.asiahouse.org/2024/12/05/the-middle-east-pivot-to-asia-2024-growing-gulf-asia-cooperation-in-a-new-era/>

²⁰ADQ. (2024, February 23). ADQ-led consortium to invest USD 35 billion in Egypt. ADQ. <https://www.adq.ae/newsroom/adq-led-consortium-to-invest-usd-35-billion-in-egypt/>

and logistic park near Port Said. Qatar Investment Authority (QIA) has also partnered on renewable energy projects in South Africa.

While the volume is yet to match Asia, by collaborating with platforms like the African Sovereign Investors Forum and Africa50, a pan-African infrastructure investment platform, GCC SWFs are embedding themselves in the continent's development story, building enduring partnerships

that promise both financial and strategic dividends.

The US Presidency factor: A catalyst for re-engagement

Looking West, the GCC's strategic relationship with the United States continues to evolve, with the current US Presidency proving potentially pivotal.

Nevertheless, the messaging and focus on future-forward sectors like AI and data centers, reflects an alignment of interests beyond the usual emphasis on oil and defense. For the United States, the deals are a source of capital for technology and infrastructure sectors, bolstering the "America First" policy. For the GCC, they preserve a critical political alliance and secure access to cutting-edge innovation and expertise.

In this sense, US policy shifts, while disruptive, could be a catalyst in transforming the country from a passive holding location to a strategic investment partner. How this geographical expansion plays out in the coming years remains to be seen, but one thing is certain, GCC SWFs are set to play a bigger role than ever in the creation of wealth from Riyadh to Cairo to Beijing.



TO THE POINT

- The potential future outlook for SWFs and why focusing on Asia now may define their strategic direction.
- GCC SWFs are expanding to diversify beyond oil and building long-term resilience.
- Asia's fast-growing markets offer major opportunities in tech AI and sustainability.
- Investment in Africa boost both returns and geopolitical influence.

Sovereign Wealth Investing in the US

STRATEGIC PARTNERSHIPS AND EVOLVING TAX LANDSCAPE

INTRODUCTION

Sovereign Wealth Funds (SWFs) have become an increasingly important player and significant source of capital in the US investment landscape. SWFs are looking for bespoke products and seeking active engagement to secure a more meaningful influence over investment decisions. For asset managers, the opportunity to collaborate with SWFs confers more than access to substantial capital. It also presents the challenge of navigating complex regulatory environments, including US tax law, so SWFs can avoid tax pitfalls and achieve new tax efficiencies.



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SWFs are pursuing more than just good returns; they want to participate actively in investment strategies, co-invest in select deals, and gain direct access to investment professionals. To win mandates and foster long-term collaboration, asset managers are responding accordingly. They are offering strategic partner relationships with SWFs, and some are customizing those relationships by structuring management fee and performance fee arrangements at the relationship level rather than on a product-by-product basis. This demonstrates the scale and importance of the relationship with SWFs in the ever-evolving US investment landscape. They may also provide SWF staff with training and knowledge-sharing sessions to further bolster relations and credibility. Finally, asset managers may offer co-investment opportunities with side-by-side investments thereby providing unique investments through an alignment of interests. Combined, these efforts recognize SWFs as sophisticated investors with long-term objectives and governance needs and acknowledge that successful partnerships require a holistic approach with a higher level of engagement.

Critical to these partnerships is understanding and complying with US tax regulations, particularly Section 892 of the Internal

Revenue Code. US-based private equity funds looking to attract investment from SWFs are well served by being conversant with Section 892 and understanding potential benefits and structuring considerations. Section 892 affords tax exemption from foreign governments and can enable SWFs to achieve attractive returns by investing in US private equity funds. For these purposes, a foreign government is defined as only the integral parts or controlled entities of a foreign government. Many SWFs invest in US opportunities through a controlled entity of the foreign government to meet the requirements for this exemption. Section 892 offers an advantage to SWFs by exempting most types of passive income from US federal income tax. The statute exempts income from investments in stocks, bonds, or other securities, as well as income from

financial instruments held in the execution of the foreign government's financial or monetary policy, and of course interest from deposits held in US banks. The exemption also applies to income generated from the ownership of stocks in real estate investment trusts that would otherwise be subject to taxation under the Foreign Investment in Real Property Tax Act. When structured properly, US real estate and real estate funds can attract investments from SWFs since they have the

added potential benefit of providing tax efficiency.

The Section 892 exemption is not all-encompassing. Consequently, careful and thoughtful structuring is necessary to mitigate tax friction and preserve the exemption. Income derived from commercial activities (commercial activity income or CAI), as well as income earned or received by controlled commercial entities (CCE), are not eligible for exemption under Section 892. If a controlled entity engages in commercial activity, it risks losing its Section 892 exemption on all US-sourced income.

Blocker entities are used to safeguard SWFs against the allocation of CAI. While an integral part of the government garnering CAI would still be eligible for the Section 892 exemption on other qualifying income, a controlled entity's ability to claim a Section 892 exemption on its other income might be jeopardized if it acquires the status of a CCE. Careful structuring is essential to ensure that no CAI is attributable to a controlled entity. There are proposed regulations that can be relied upon that may provide relief for a controlled entity that receives inadvertent CAI.

When determining the form of the structure, it is important to avoid "tainting" Section 892 qualifying income by creating CCEs. In general, a CCE is any entity of the government,

whether inside or outside the United States, that is engaged in commercial activities and in which the government holds directly or indirectly 50 percent or more of the total value, or voting power of the entity; or holds directly or indirectly sufficient interest (by value or vote) or any other interest in such entity that provides the foreign government with effective practical control of such entity. Staying below the 50 percent ownership threshold is a mechanical exercise in structuring. Care should be taken to ensure that a SWF does not have effective practical control through a thorough analysis of facts and circumstances.

Investors in US real estate should be attentive to US real property holding corporation (USRPHC) regulations as defined in IRC Section 897(c) (2) or to those regulations governing a foreign corporation that would be treated as if it were a US corporation. USRPHCs are treated as being engaged in a commercial activity and therefore a CCE if the control requirements are met. Controlled entities should monitor the number of US real property interest owned to prevent the entity from becoming a CCE, what is commonly labeled the "basketting problem". Proposed regulations would eliminate the USRPHC rule and that would ease some of the regulatory burdens on SWFs.

SWFs must also consider the

rules governing the corporate alternative minimum tax (CAMT). The CAMT rules are complex and broad and could entail unexpected results. US corporations are subject to CAMT if they are treated as "applicable corporations". In general, a US corporation is an applicable corporation if its average "adjusted financial statement income" (AFSI) for a three taxable year period exceeds US\$1 billion. In addition, if a US corporation is a member of a "foreign parented multinational group" (FPMG), then the US corporation is an applicable corporation if (i) the average AFSI of the FPMG for a three taxable year period exceeds US\$1 billion, and (ii) the AFSI of the US corporation for said three-year period exceeds US\$100 million. AFSI is generally understood to be financial statement net income or loss, subject to certain adjustments. An interim safe harbor provides that such AFSI tests are not met based on thresholds of US\$800 million and US\$80 million (with limited adjustments to financial statement income or loss).

For purposes of the AFSI tests, corporations that have a greater than 50 percent stock ownership connection (considering certain attribution rules) must group their AFSI together. In addition, AFSI of greater than 50 percent related partnerships with trades or businesses would be considered. A FPMG generally requires certain types of consolidated financial statements that include at least one US corporation and one non-US corporation treated as the common parent. If a foreign corporation is engaged in a US trade or business, for US federal income tax purposes, then there will be a deemed US corporation and, thus, there could be a FPMG.

The investment structures

and investments of a SWF could potentially have adverse consequences under the CAMT rules. A SWF could be the parent of a greater than 50 percent related group, including US corporations indirectly owned through a partnership (e.g., a private equity fund). In such case, each of the US corporations would need to consider the AFSI of the other US corporations in making the determination of applicable corporation status.

With respect to the FPMG rules, the CAMT statutory rules generally require members to be on the same consolidated financial statement which makes an FPMG less likely, although there could be a deemed FPMG based on US trade or business activity. However, the CAMT proposed regulations significantly expand the definition of a FPMG by applying certain financial accounting standards that could deem there to be consolidated financial statements, which can result in an FPMG. The effect of a US corporation being included in a FPMG may make the AFSI tests for applicable corporation status easier to meet.

Since the US tax environment is fluid and subject to legislative change, SWFs and asset managers should monitor it regularly. The One Big Beautiful Bill Act (OBBA) was signed into law, an earlier iteration of the bill contained proposed provision Section 899.

This provision was cast as a retaliatory tax policy aimed at foreign governments imposing "unfair" or "discriminatory" taxes on US companies such as Digital Services Taxes and Pillar 2 Undertaxed Profits Rules. Section 899 introduced additional income tax and withholding taxes on payments. It would have effectively repealed the tax exemption

under Section 892 for foreign governments of countries that impose an "unfair foreign tax". Section 899 was subsequently removed from the OBBA after an agreement was reached with G7 countries to exclude US companies from OECD Pillar 2 taxes. While Section 899 did not become law, it's nevertheless a reminder of the precarious nature of tax exemptions for SWFs.

CONCLUSION

As asset managers work to build relationships and attract investments from SWFs, it remains imperative that they have a full understanding of the tax regulations governing

those investments. They want to provide SWFs with a robust and informed understanding of the complex requirements SWFs need to meet as they invest in the United States. Asset managers and their teams should be attentive to the specific criteria that dictate whether an SWF has met the requirements of Section 892 so it can preserve its tax-exempt status and also consider the impact of the CAMT rules. That requires careful structuring, planning, and monitoring of investments, transactions, and processes, all so that strong and mutually beneficial relationships can flourish.



TO THE POINT

- Sovereign wealth funds are an important source of capital and fund managers are responding with strategic partnerships and unique investment opportunities.
- The U.S tax law affords SWFs tax exemptions on certain income under IRC Section 892. Careful analysis and structuring is required to effectively navigate the intricacies of Section 892 to achieve tax efficiencies.
- SWFs may also trigger Corporate AMT tax in certain investment structures.

Shifting Tides of Asian investment: The dynamic inflows and outflows of Sovereign Wealth funds and public Pension funds in asian private markets



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INTRODUCTION

Over the past decade, principal investors—sovereign wealth funds (SWFs) and public pension funds (PPFs)—have underpinned the growth of private market investments with an outsized contribution compared with other asset classes.

However, private capital direct investment deployment in Asia varies by investor home market. This article analyzes direct investment trends and examines the diverging principal investor themes shaping Asia's private markets.

Pivot to private markets

SWFs and PPFs have significantly increased their allocations to private markets over the past decade.

According to consulting firm Global SWF, the private markets assets under management (AUM) invested by SWFs and PPFs reached US\$6.8 trillion in 2023, accounting for 19.3% of total AUM of SWFs and PPFs, up from US\$2.8 trillion and 13.5% of total AUM in 2014.

This represents an annualized growth rate of 10% over the past decade (See Figure 1).

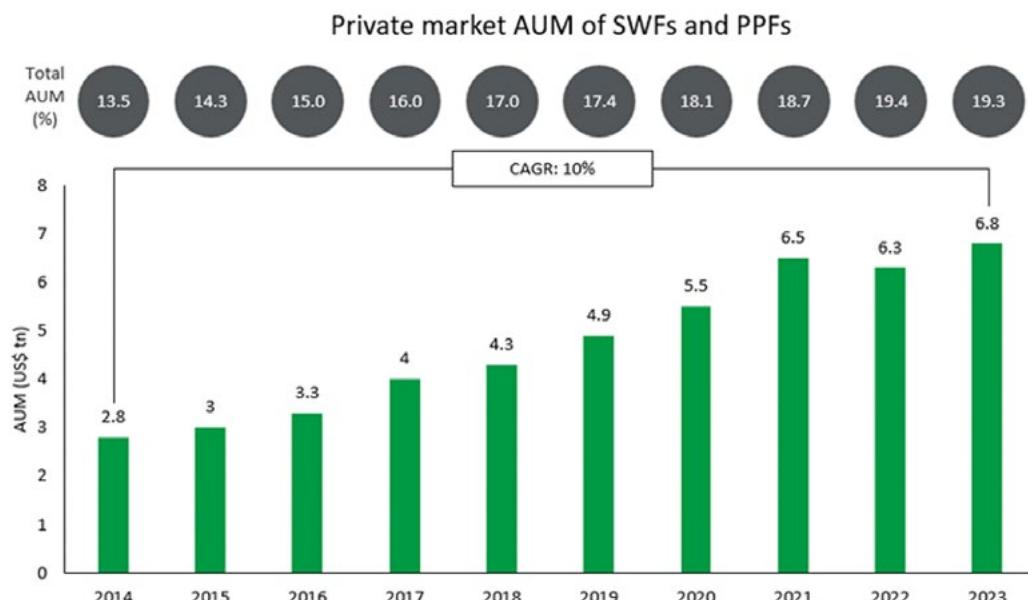
SWFs and PPFs, with their long-term investment horizon, low leverage, and stable capital base, are particularly well positioned to invest in illiquid private assets, which often outperform public markets over the long term.

Vanguard, in its 2025 Private Market Outlook, expects that global private equity (PE) portfolios can outperform global public equities over the long term by approximately 350 basis points annually.¹ The increased appetite for private asset allocation accelerated after the global financial crisis, fueled by ultra-low interest rates, a search for yield, and investor mandates tolerating illiquidity.

However, interest rate hikes, the prospect of persistently higher inflation, geopolitical uncertainties, and delayed capital returns have slowed the shift into private assets since 2021. According to Global SWF (Figure 1), assets

Figure 1

Source: Global SWF, includes all private market investment (Limited Partner (LP) commitments, direct investments, and co-investments)



under management (AUM) grew from US\$6.5 trillion in 2021 to US\$6.8 trillion in 2023. This represents an annualized AUM growth rate of only 2.3% from 2021 to 2023, significantly below the ten-year compounded annual growth rate of 10%.

Multiple instances demonstrate this increased allocation. The Abu Dhabi Investment Authority (ADIA) expanded its private equity allocation target from 5%-10% in 2020, to 10-15% in 2022, to 12-17% in 2023.² Saudi Arabia's Public Investment Fund's (PIF) private investments have increased steadily each year from 34% of total AUM in 2021, to 40% in 2024.³

In line with its 2013 Policy Portfolio, the Government of Singapore Investment Corporation (GIC) has steadily increased its allocations to PE and real estate, rising from 7% and 11%, respectively, in 2018

to 13% and 18% in 2024.⁴

Meanwhile, Korea Investment Corporation (KIC) has also increased its allocation to alternatives from US\$24.5 billion in 2019, representing 15% of AUM, to US\$45.2 billion in 2024, 21.9% of AUM, and the allocation is set to be 25% in 2025.⁵

Headwinds in Asia direct investments post-2021 peak

Despite principal investors' increasing allocations to private investments, the direct investments of SWFs and PPFs—which include both direct and co-investments but exclude LP commitments—have declined globally since peaking in 2021. Deal activity fell from 1,836 deals worth US\$402 billion in 2021 to 1,371 deals worth US\$305 billion,

representing approximately a 25% drop (see Figure 2).

This pullback might represent a reassessment of capital deployment following COVID-19, reflecting increased global uncertainty, tightening financial conditions, and country-specific headwinds such as geopolitical conflicts and regulatory changes.

Asia is no exception, experiencing a sharper decline than the global average in both the number and value of direct investment deals. Deal activity fell from 316 deals worth US\$101 billion in 2021 to 182 deals totaling US\$48 billion in 2024, representing declines of 42% and 53%, respectively. However, the decreased investment in Asia is not consistent across all principal investors. There is a dynamic shift taking place as some increase, and others decrease, their direct investment exposure in Asia.

¹Vanguard, "Vanguard 2025 private equity market outlook" https://corporate.vanguard.com/content/dam/corp/research/pdf/vanguard_2025_private_equity_market_outlook.pdf p3.

²ADIA Annual Reviews <https://www.adia.ae/en/publications>

³PIF Annual Reports <https://www.pif.gov.sa/en/investors/annual-reports/>

⁴GIC Annual Reports <https://www.gic.com.sg/our-portfolio/gic-reports/>

⁵KIC Annual Reports <https://www.kic.kr/en/news/reports>

North American and European principal investors are adopting a cautious and opportunistic approach in Asia

North American and European principal investors are scaling back operations in Asia and are becoming more opportunistic when it comes to investment.

China was hit the hardest in the region. Caisse de dépôt et placement du Québec (CDPQ), which halted new PE commitments in China two years ago, was reported in August 2025 to be exploring a secondary sale of approximately US\$2 billion in China-linked assets.

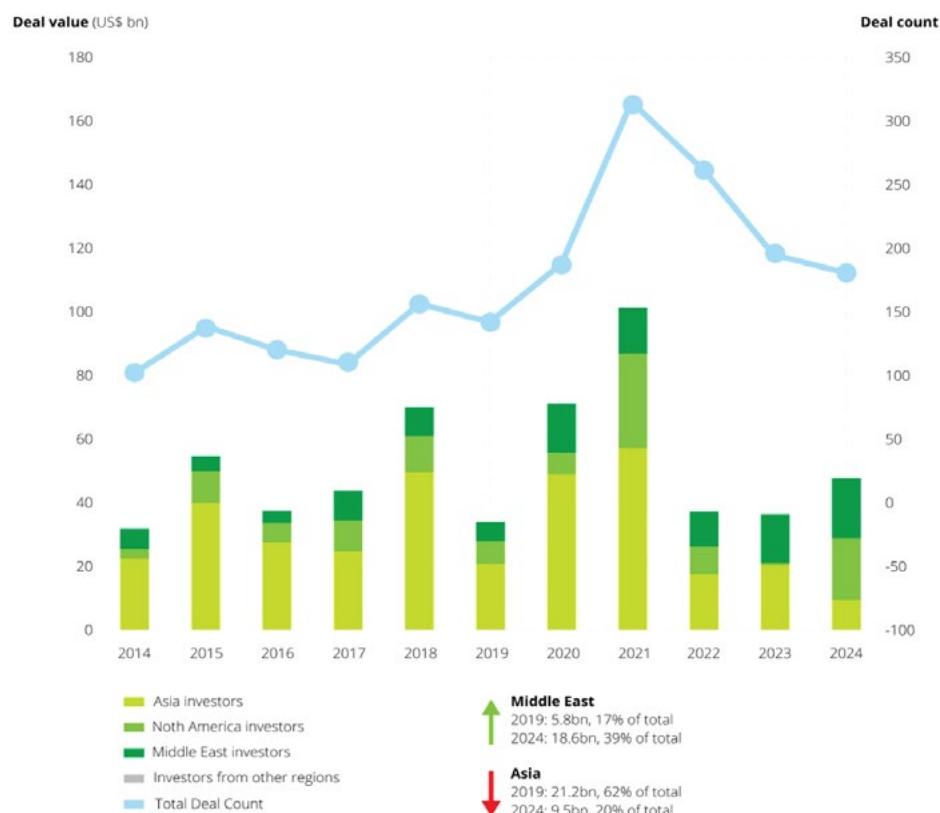
⁶Following Canada Pension Plan Investment Board (CPPIB)'s scale back of Hong Kong presence in 2023, Ontario Teachers' Pension Plan (OTPP) has done the same, announcing the closure of its Hong Kong office this year.^{7,8}

Other parts of Asia also see North American and European principal investors reducing exposure. For instance, in May 2025, Norges Bank Investment Management, responsible for the investments of Norway's Government Pension Fund Global, announced the closure

Figure 2

Source: PitchBook data (accessed via Deloitte subscription); Deloitte analysis. Includes all direct private market investments by SWFs and PPFs in Asia over the past 10 years. Data was filtered by Deloitte to exclude irrelevant transactions.

Asia private market direct investments made by SWFs and PPFs



of its Tokyo real estate office as the Japanese market was 'no longer' a priority.⁹

Notwithstanding the scaled back operations, principal investors continue to invest opportunistically in the region. For instance, OTPP recently completed its INR 20.8 billion (~US\$250 million) capital raise investment in National Highways Infra Trust

maintaining its 25% stake;¹⁰ and CPPIB invested in AirTrunk along with Blackstone in 2024.¹¹

Part of this trend could be global, as Canadian pensions are scaling back direct investing in general.

As of March 2025, OTPP is aiming to lean more on partnerships (rather than owning entire firms) to

mitigate risk¹², and CDPQ said in February 2025 that it would scale back its direct investing and team up with third-party managers.¹³ The Ontario Municipal Employees Retirement System (OMERS) halted direct PE investments in Europe in 2024, shifting its exposure by investing alongside partners and third-party managers.¹⁴

⁶Reuters, "China private equity secondary deals to surge on rising supply, cheaper valuations" <https://www.reuters.com/markets/asia/china-private-equity-secondary-deals-surge-rising-supply-cheaper-valuations-2025-08-20/>

⁷Reuters, "Canada's largest pension fund trims staff as it puts China deals on hold" <https://www.reuters.com/markets/canadas-largest-pension-fund-trims-staff-it-puts-china-deals-hold-sources-2023-09-01/>

⁸Asia Asset Management, "Ontario Teachers' Pension Plan to shut down Hong Kong office" <https://www.asiaasset.com/post/29435-ontariohkg-gte-0320>

⁹Mingtiandi, "Norges Bank Shutting Down Tokyo Real Estate Office and More Asia Real Estate Headlines" <https://www.mingtiandi.com/real-estate/crelist/roundup-norges-bank-shutting-down-tokyo-real-estate-office/>

¹⁰OTPP, "Ontario Teachers' completes fourth investment into National Highways Infra Trust" <https://www.otpp.com/en-ca/about-us/news-and-insights/2025/ontario-teachers-completes-fourth-investment-into-nhit/>

¹¹CPPIB, "CPPIB Announces Investment in Asia Pacific Data Centre Operator AirTrunk" <https://www.cppinvestments.com/newsroom/cpp-investments-announces-investment-in-asia-pacific-data-centre-operator-airtrunk/>

¹²Bloomberg, "Global Risk Spurs Ontario Pension Fund to Revamp PE Strategy" <https://www.bloomberg.com/news/articles/2025-03-21/global-risk-spurs-canadian-pension-to-rethink-pe-strategy>

¹³Wealth Professional, "CDPQ shifts private equity strategy, increases reliance on partnerships while keeping direct investments" <https://www.wealthprofessional.ca/investments/alternative-investments/cdpq-shifts-private-equity-strategy-increases-reliance-on-partnerships-while-keeping-direct-investments/388463>

¹⁴Bloomberg, "Omers to Stop Making Direct Private Equity Investments in Europe" <https://www.bloomberg.com/news/articles/2024-09-26/omers-to-stop-making-direct-private-equity-investments-in-europe>

Asian principal investors are pivoting to the West

Asia's homegrown SWFs have also shifted their deployment away from Asia and toward North America and Europe, leading to a decline in Asian investments. According to Deloitte analysis, both the number and value of direct private investments by Asian principal investors in Asia fell from 192 deals worth US\$57.2 billion in 2021 to 96 deals totaling of US\$9.5 billion in 2024.

GIC reported a decade-low Asia exposure of only 26% of investment portfolio as of 31 March 2024. In 2019, GIC had 32% of its portfolio in Asia and dedicated a section of its annual report to feature "Asia's Growing Importance in the Global Economy and Financial

Markets" with expectations for the region to continue to grow. At the same time, there is a shift favoring US exposure, which increased from 32% in 2019 to 39% in 2024.¹⁵ Furthermore, US headcount at GIC has reportedly grown 30% in three years to almost 360 in December 2024.¹⁶ GIC Chief Executive Officer Lim Chow Kiat told Bloomberg in July 2025 that GIC will continue to have a large US exposure and United States will remain an important investment destination, signaling GIC's renewed interest in United States will continue.¹⁷

Middle Eastern principal investors are leaning into Asia

Middle Eastern principal investors are increasing private investments globally, with Asia playing a significant

role. Preqin's 2025 Middle East Investor Survey¹⁸—which covers the region's SWFs, family offices, asset managers, and other investors—found that nearly 80% of Middle East investors plan to increase their allocations in PE over the next year.

The number and value of Middle Eastern principal investors' direct private investments in Asia, based on Deloitte's analysis, have more than doubled, from 16 deals worth US\$5.8 billion in 2019 to 43 deals worth US\$18.6 billion in 2024. This shows that Middle Eastern principal investors are decisively increasing their activities in Asia, perhaps capitalizing on others' retreat from the region.

In addition to traditional direct and co-investments, we have seen a range of strategic initiatives and collaborations by Middle Eastern funds in Asia private markets, targeting

technology, infrastructure, and renewables, as governments seek to diversify their economies and bring innovation and technology to their home markets.

As such, Middle East SWFs are not just passively allocating capital but actively seeking direct investment and co-investment opportunities through partnering with Asian General Partners (GPs), government agencies and technology giants. Alongside increased investment, Middle East SWFs are opening offices and rapidly building teams in Asia. For example, Cppib's Asia PE head, Frank Su, left for the Abu Dhabi Pension Fund to become Global Head of Private Equity in December 2024.¹⁹ The Qatar Investment Authority (QIA) announced in September 2024 that it would be bolstering its presence in Australia and Korea and doubling its team in Japan.²⁰



¹⁵GIC Annual Reports <https://www.gic.com.sg/our-portfolio/gic-reports/>

¹⁶Bloomberg, "Singapore's Cautious Wealth Fund Takes More Private Markets Risk" <https://www.bloomberg.com/news/articles/2024-12-10/singapore-s-cautious-wealth-fund-gic-takes-more-private-markets-risk>

¹⁷Bloomberg, "GIC Boosts Americas Exposure to 49%, Eyes AI Deals in US" <https://www.bloomberg.com/news/articles/2025-07-24/gic-lifts-americas-investments-on-ai-boom-apac-holdings-fall>

¹⁸Preqin, "2025 Middle East Investor Survey" <https://www.preqin.com/insights/research/factsheets/middle-east-investor-survey-2025>

¹⁹Bloomberg, "Asia PE Chief Quits Canada Pension for Global Role in Abu Dhabi" <https://www.bloomberg.com/news/articles/2024-12-11/asia-pe-chief-quits-canada-pension-for-global-role-in-abu-dhabi>

²⁰Asharq Al-Awsat, "Qatar Investment Authority Expands into Australia, Korea and Southeast Asia" <https://english.aawsat.com/business/5062619-qatar-investment-authority-expands-australia-korea-and-southeast-asia>

²¹Reuters, "Indonesia, Qatar to create \$4 bln joint fund investing in Indonesia" <https://www.reuters.com/business/finance/indonesia-qatar-create-4-bln-joint-fund-investing-indonesia-2025-04-15/>

²²Lenovo, "Lenovo and Alat Complete US\$2 Billion Investment and Reach Strategic Collaboration Agreements" <https://news.lenovo.com/pressroom/press-releases/lenovo-and-alat-complete-us2-billion-investment-and-reach-strategic-collaboration-agreements/>

²³The Asset, "Middle East investors strengthen ties with China" <https://www.theasset.com/article/52305/middle-east-investors-strengthen-ties-with-china>

²⁴Reuters, "Goldman Sachs, Mubadala sign \$1 billion private credit Asia-Pacific partnership deal" <https://www.reuters.com/business/finance/goldman-sachs-mubadala-sign-1-billion-private-credit-asia-pacific-partnership-deal-2024-02-26/>

²⁵AGBI, "Abu Dhabi's Mubadala buys Loscam stake for \$567m" <https://www.agbi.com/manufacturing/2025/07/abu-dhabis-mubadala-buys-loscam-stake-for-567m/>

²⁶Malaysia Airports Set for Delisting as Khazanah Completes Buyout <https://www.bloomberg.com/news/articles/2025-01-29/malaysia-airports-set-for-delisting-as-khazanah-completes-buyout>

²⁷Reuters, "China's Trustar raises \$1 bln for vehicle that holds McDonald's China stake, sources say" <https://www.reuters.com/business/chinas-trustar-raises-1-billion-vehicle-holds-mcdonalds-china-stake-sources-say-2024-11-21/>

²⁸Reuters, "ADIA to invest \$750 mln in debt of India's GMR Group" <https://www.reuters.com/business/aerospace-defense/adi-invest-750-million-debt-indias-gmr-group-2024-10-23/>

Select initiatives and investments by Middle Eastern based SWFs

Strategic initiatives/Partnerships

- **April 2025:** Danantara and QIA announced a US\$4 billion joint fund to invest in domestic priority sectors in Southeast Asia²¹.
- **January 2025:** Lenovo and PIF completed a US\$2 billion strategic investment to expand its Middle East business and to establish MENA Riyadh based headquarter²².
- **August 2024:** PIF signed agreements worth up to US\$50 billion with six major Chinese financial institutions and announced it would open a Beijing office²³.
- **February 2024:** Mubadala signed a US\$1 billion private credit partnership with Goldman Sachs to invest in Asia Pacific²⁴.

Recent direct investments

- **July 2025:** Mubadala acquired a 30% stake in Loscam International, a pallet packaging solutions provider, for US\$567 million²⁵.
- **January 2025:** ADIA participated in the Khazanah and Employees Provident Fund led US\$3.9 billion take private of Malaysia Airports²⁶.
- **November 2024:** QIA and CIC participated in Trustar's McDonald's China US\$1 billion continuation fund²⁷.
- **October 2024:** ADIA invested US\$750 million in the debt of GMR Group, an India-based airport infrastructure company²⁸.
- **October 2024:** QIA joined a consortium in the US\$7.1 billion take private of ESR Group, an Asia-Pacific

real estate developer and manager²⁹.

- **June 2024:** QIA brought a 10% stake in China's second largest mutual fund company, China Asset Management Co, from Primavera Capital for US\$490 million³⁰.
- **May 2024:** Mubadala made its first renewable energy investment in Japan by becoming a cornerstone investor in PAG's Asia Pacific renewable energy platform, PAG REN1³¹.

A structural realignment in global capital: Will Asia Investment rebound?

The shifting tide of investment strategies among SWFs and PPFs continues to redefine Asia's financial landscape. While SWFs and PPFs have broadly increased their allocations to private markets, regional uncertainties and shifting risk appetites have led to divergent deployment patterns in Asia.

Appetite and capital allocations for Asian investment are changing but not dissipating. This dynamic investor environment reflects the same dynamism seen across the varied markets in Asia Pacific, and it requires deal teams and GPs to continually expand their co-investor and LP partner network.

Looking beyond the short- to medium-term uncertainties, the long-term opportunities in Asia, with its strong growth profile and large, growing

consumer class, will continue to attract investment from around the world. While allocations may vary over the short term, we anticipate increased investment in the long run.

In fact, Invesco's Global Sovereign Asset Management Study 2025³² survey shows China re-emerged as a strategic priority with a growing number of SWFs positioning China as a core allocation perhaps a reversal after several years of lowered exposure.

Principal investors are adapting and shifting their priorities, calibrating their exposure, and focusing on sectors and targeted opportunities that promote portfolio resilience and long-term value creation, of which Asia will undoubtedly play a key role.

CONCLUSION

Over the past decade, principal investors have been key drivers of private market growth, increasing allocations from US\$2.8 trillion in 2014 to US\$6.8 trillion in 2023.

Principal investors' private capital direct investments in Asia peaked in 2021 at US\$101 billion and have since declined, but the mix of investors has shifted.

North American and European-headquartered principal investors have retreated or become more cautious and Asian investors are pivoting toward Western markets.

In contrast, Middle Eastern SWFs are ramping up activity in Asia, more than doubling deal flow since 2019.



TO THE POINT

Principal investors (sovereign wealth funds and public pension funds) have increased private market allocations from USD2.8 trillion in 2014 to USD6.8 trillion in 2023. By contrast, direct investment into Asian private markets has decreased since its peak in 2021. However, not all funds are flowing in the same direction. Analysis of deals data reveals that appetite for exposure to Asia direct private investment varies by principal investor home office, with Middle Eastern funds increasing Asian direct investment as Asian and North American funds are pivoting away.

²⁹Reuters, "Qatar Investment Authority joins consortium to take HK-listed ESR Group private" <https://www.reuters.com/business/finance/qatar-investment-authority-joins-consortium-take-hk-list-ed-esr-group-private-2024-10-04/>

³⁰Asia Asset Management, "Qatar sovereign wealth fund to buy 10% stake in ChinaAMC, report says" <https://www.asiaasset.com/post/28538-qatarchinaamc-gte-0605>

³¹Mubadala, "Mubadala makes first renewable energy investment in Japan" <https://www.mubadala.com/en/news/mubadala-makes-first-renewable-energy-investment-in-japan>

³²Invesco, "Global Sovereign Asset Management Study 2025" <https://www.invesco.com/apac/en/institutional/insights/multi-asset/global-sovereign-study.html>

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