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Growth in funds, assets drives SWF competitive landscape

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Introduction

Much has been written about the resurgence in Sovereign Wealth Fund (SWF) activity over the past two years. New SWFs are being established around the world, existing funds have made high-profile acquisitions, and the value of assets under management continues to hit fresh highs. Less well-explored is the impact of these changes, and how increasing competition is playing out in different ways, particularly in the Middle East.

This brief will recap the recent growth in the SWF landscape, why it has taken place, and how it has shaped changes in the Gulf funds amid an increasingly crowded landscape and a more uncertain geopolitical environment.

In short, despite the flurry of new funds being announced by governments as diverse as Ireland and Pakistan, Gulf SWFs remain at the heart of the industry thanks to their sheer size and ability to pursue large-scale overseas transactions. Yet across the region there is now greater competition and more pressure to improve performance. Newly-created funds are competing with established powerhouses for investment opportunities and talent, and a stronger element of national pride and protectionism has come into play.

Post-pandemic growth

As we approach the mid-point of the 2020s, it is worth looking back at the recent growth in funds and the heightened attention they are now attracting.

The number of funds that can be broadly defined as SWFs has roughly tripled since 2000, and now totals around 160-170. According to Global SWF, some 13 new entities were set up between 2020 and 2023, while others have been announced but not yet established. The aggregate value of assets under management (AUM) has risen in parallel, reaching a record high of about $12tn by the end of 2024 and forecast to hit $18trn by 2030.

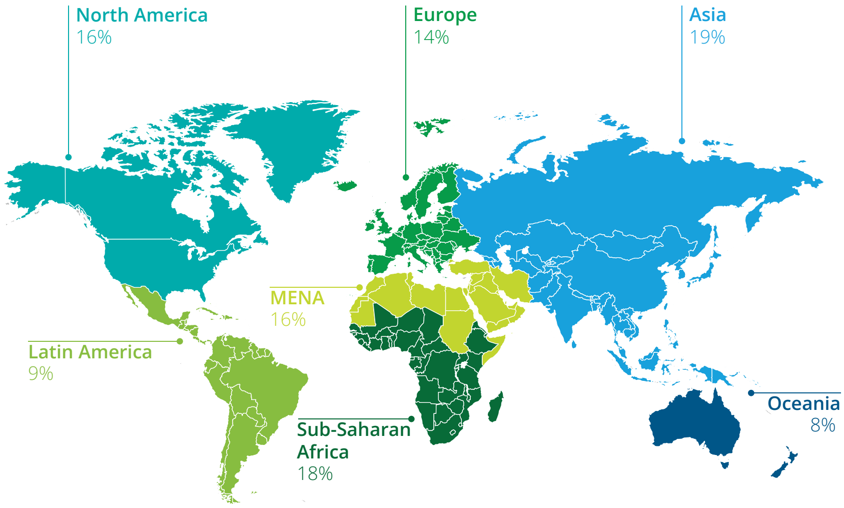

Figure 1: Breakdown of SWF entities by region, end-2023

Source: Global SWF www.globalswf.com

The Gulf region continues to play a disproportionately large role in both asset size and transaction activity, accounting for about 40% of all SWF assets and six out of the ten largest funds worldwide. They invested $82bn in 2023 – about two-thirds of all new SWF activity, according to Global SWF – and another $55bn in the first nine months of 2024. This suggests no slowdown in pace this year, and the major five Gulf players – the Abu Dhabi Investment Authority (ADIA), Abu Dhabi's Mubadala and ADQ, Saudi's Public Investment Fund (PIF) and the Qatar Investment Authority (QIA) – continue to dominate activity in the region.

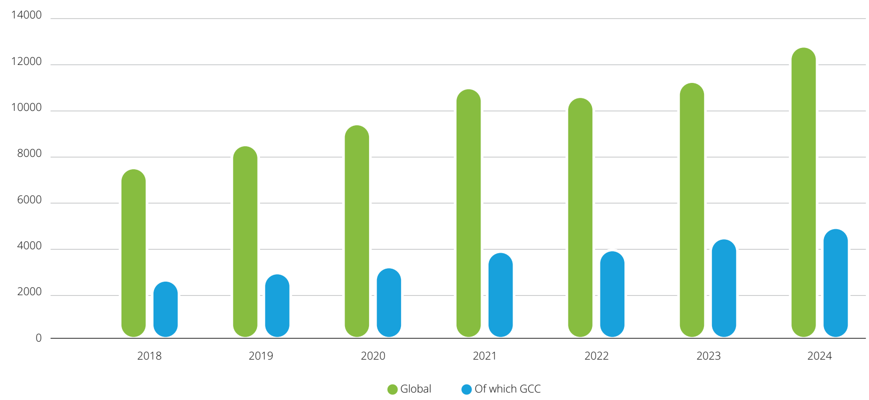

Figure 2: Total SWF assets under management (AUM), in $bn

Source: Global SWF www.globalswf.com

Two main drivers are responsible for the series of new SWFs being announced. The first is a push by governments both in mature states and in developing economies to set up funds for the first time. Ireland, Portugal and the UK have all announced new funds in the past 12 months, for example, while the US has signalled it may establish a central government fund to better utilize federal assets.

Elsewhere, governments in Mozambique, the Philippines, Ethiopia, Kenya, Pakistan, Kosovo, Egypt, Indonesia and others have moved into the SWF landscape. Some of these new funds are already active, while others remain under formation and are likely to start operating over the next year.

However the size and remit of these funds suggests that they will be more domestically-oriented rather than in competition with the Gulf giants – although they may be hunting for the same human capital. New SWFs will likely be focused on local infrastructure, job creation, or reviving stagnant state assets. They may also co-invest in transactions that would otherwise be too risky or long-term for a private-sector or foreign player to take on alone, and in the case of extractive-based economies, help stabilize state coffers in periods of low commodity prices.

They may furthermore play a protectionist role. Industry observers point to some states adopting a shift in attitude during COVID, when dealmaking paused sharply due to travel restrictions and general uncertainty. Many governments, particularly in sub-Saharan Africa, are thought to have reassessed their previous willingness to sell off strategic assets, especially to Gulf SWFs, amid a more conservative, nationalistic mood in public opinion. New SWFs have been partly set up to fill that gap, or at least co-invest alongside overseas funds.

Selected new SWF announcements since 2021

Name	Country	Initial estimated AUM US$ (bn)	Announced
National Wealth Fund	UK	7.2	2024
Future Fund Oman	Oman	5.5	2024
Ireland Strategic Investment Fund (ISIF)	Ireland	8.4	2023
Dubai Investment Fund (DIF)	UAE	80	2023
Ciyada Fund	Kuwait	200	2023*
Sarawak	Malaysia	1.75	2023
Maharlika	Philippines	9.2	2023
Sovereign Fund of Mozambique	Mozambique	0.6	2023
Pakistan Sovereign Wealth Fund	Pakistan	8.0	2023
Ethiopian Investment Holdings	Ethiopia	150	2022

*Ciyada fund will be established as a new Kuwait Infrastructure fund, possibly partially funded by KIA

The second driver of new SWF creation has been the establishment of additional or parallel entities in states where funds already existed. This is most evident in the GCC, where new funds linked to specific individuals or extended families – sometimes described as "Royal Private Offices" or RPOs – have emerged in recent years.

While the line between ruling family offices or state-controlled funds is blurred, these entities can wield significant assets and their remits often appear to overlap partly with the established players. Global SWF estimated this year that such family offices in the Gulf controlled some $500bn in assets.

Parallel or spin-off funds have also been set up. Dubai, which already controls a SWF called the Investment Corporation of Dubai (ICD), has created a new entity called the Dubai Investment Fund (DIF). This will hold the Emirate's stakes in utilities and road toll operators, and be responsible for "investing Dubai government funds, surpluses and the general reserve, domestically and abroad".

In neighboring Abu Dhabi, the International Holding Company (IHC) and Royal Group this year added a new holding entity called 2PointZero to their web of interests. All are ultimately controlled by members of the Emirate's ruling family, under Sheikh Tahnoon bin Zayed Al Nahyan, who has become a key figure in the Gulf's SWF landscape since becoming IHC chairman in 2020.

Performance drive spurs competition

With more entities and more assets now being actively deployed, funds are under increasing pressure to gain a competitive edge. This has played out in the Gulf against the backdrop of lower oil prices – and, in the case of several GCC states, widening budget deficits.

One noticeable effect has been a stronger focus on internal performance, risk oversight and investment management. Funds are being asked to tighten up operations, be more selective on transactions, improve internal processes and ultimately deliver better returns. Many Gulf SWFs are now adopting a more proactive approach, being more open to divest than would have been the case a decade ago, demanding better reporting from portfolio companies and more willing to exert influence at board level.

Some are also pushing through major structural changes and mergers within holdings, particularly on the domestic front, where overspends and missed deadlines by portfolio companies have prompted action such as management overhauls. In other cases, inefficiencies and duplication of functions have prompted consolidation in a bid to cut costs and streamline.

Saudi's PIF, for example, carried out several consolidations of state-controlled companies this year. In April it merged two state-controlled telecom towers firms, followed a month later by the merger of entertainment and sports companies Seven and Qiddiya. The fund is also in talks to purchase the national carrier, Saudia, as part of a wider streamlining plan within the aviation sector.

The pivot to Asia

Competition is also playing out overseas, as GCC funds look increasingly towards fast-growing countries outside of the traditional Western markets.

The African continent continues to be an area of interest, with the mining sector in particular yielding a flow of new opportunities. The UAE and Saudi, for example, have shown willingness to invest in high-risk extractives ventures in Africa this year, both directly and through their holdings in multinational mining firms.

Even more noteworthy, perhaps, has been an increasing allocation to Asia since 2022, especially to high-population countries including China, India and Indonesia. While overall Gulf assets in Asia are still far below their holdings in US or Western Europe, this pivot is significant.

On the ground, Middle East funds are now competing directly in the region, setting up new offices in key Asia-Pacific markets to help source and execute deals more effectively. In October ADIA established a new entity in Gujarat to hold its investments in India, shortly after committing some $750m to GMR Group, a major airport operator in India and Indonesia. This summer it hired the ex-CFO of Jingdong Investments, a Chinese private equity fund, to head up its Beijing-based PE unit.

The QIA set up a subsidiary in Singapore in 2021 and plans to boost its physical presence elsewhere in the region. "For Australia and Korea, we are going to start hiring people," Abdulla Ali Al-Kuwari, the fund's head of Asia Pacific, told a conference in September. "We started Japan with the team maybe three years ago, now we are doubling it, we are going to hire more and more people so it is a market to focus for us."

China specifically has emerged as a key destination this year. Funds have spotted opportunities to take advantage of the geopolitical decoupling between China and the West, moving in as Western investors look to exit, and benefitting from the closer political and trade ties between Beijing and the GCC.

Gulf funds invested an estimated $9.5bn into the country in the year ending September 2024, according to Global SWF, a sharp rise on previous flows. This year both ADIA and the Kuwait Investment Authority (KIA) have been ranked in the top 10 shareholders in Chinese A-Share listed firms, for example, and have significantly increased their allocations to the Chinese mainland.

Saudi's PIF has already established an office in Hong Kong and according to the Chinese ambassador to Saudi Arabia (al Eqtisadiah newspaper 10/09/2024) is thought to be eyeing offices in Beijing, Shanghai and Shenzhen, and in May bought $2bn of convertible bonds from China's Lenovo Group, part of a wider deal involving technology exchange. The Kingdom's overseas push may be tapered back, given its recent announcement to refocus on domestic investment, but higher allocations to high-growth developing markets are nonetheless likely.

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Outlook

Important changes have taken place in the SWF landscape in recent times. Governments around the world are creating new funds, taking a more protectionist approach to their assets, and demanding better returns. In the Middle East there has been a clear push towards tighter management, cost control and higher profitability, all of which will require a competitive approach to operating.

Despite the plethora of new SWFs appearing globally, the Gulf will continue to be the focus of growth and activity, simply thanks to the sheer size of assets being deployed and a greater risk appetite both geographically and strategically. New funds outside of the Gulf will most likely act as domestic support vehicles, or as co-investment partners alongside Middle East players.

Headwinds will include the uncertain geopolitical environment in the region, and the potential for lower commodity prices to limit the value of new capital flowing into SWFs. On the other hand, those pressures may also be what drives the funds to operate more efficiently than before.

Our next article in this series will look in more detail at the challenges that Gulf SWFs face in this more competitive landscape, particularly in terms of recruiting and retaining the best human capital.

Human capital

Pressure to improve performance has also intensified competition to recruit and retain talent, both domestic and international, with an estimated 9,000 people now working across Gulf SWFs.

Local human capital is a central issue: funds are constantly seeking to hire the best staff and meet government targets on the ratio of national employees in state workforces. Given the local populations in Gulf countries, this means drawing from a limited pool of qualified candidates and often poaching from competitors.

In terms of international talent, senior management from respected older funds such as Singapore's Temasek or Canada's Maple Eight remain particularly sought-after in the Gulf. On offer are lucrative packages, the opportunity to handle major and sometimes unique transactions, and a region which is becoming a more attractive place to live for SWF personnel.

Earlier this year ADIA hired a senior Blackstone executive, Alberto Santulin, to head up its alternative investments unit, while it has recruited over 100 international staff for a recently-created quantitative team. Between 2019 and 2022 ADIA actually reduced its overall headcount by around 15%,

In parallel, we have seen increased competition among firms looking to service the Gulf SWFs. Slowdowns in more mature markets combined with continued opportunities in the Middle East have prompted a new wave of lawyers, accountants and advisers to set up offices in the region.

This has often been encouraged - and sometimes required – by the funds themselves. Riyadh has asked multinationals to base their regional HQs in the Kingdom in order to bid for state contracts, while Abu Dhabi has sought to populate its ambitious Abu Dhabi Global Market (ADGM) development by seeding capital to fund managers on condition they establish physical offices in the zone.

That strategy appears to have been successful. ADGM reported a 226% annual rise in AUM in June, with workforce up by 2,500 people. It says that 141 funds are now registered in the zone, while occupancy in residential units on Reem Island are over 90%. Even though some of these offices are still building their staff a series of big names have established entities in the Emirate since the pandemic.

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Focused upon the investments, the investment process, Governance Risk and Compliance to support the C suite SWF ambitions, bringing knowledge from the global SWF.