



## The New Bankers to the World Aren't on Wall Street

### Description

Middle East sovereign funds spent almost \$89 billion globally last year, with deal makers using their wealth to diversify their economies and win geopolitical influence

Story by Dinesh Nair, Matthew Martin, Nicolas Parasie and Archana NarayananGraphics by Sam Dodge

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When Credit Suisse Group AG, Sam Bankman-Fried and Asia's richest men were hunting for funds in recent months, they all turned to the same place — the Middle East.

As many debt markets slammed shut last year, cash became king — and the region's sovereign wealth funds have plenty. Surging energy prices left funds from Saudi Arabia to Qatar and Abu Dhabi managing more than \$3.5 trillion, an amount that exceeds the UK's GDP. They're now bankrolling some of the world's biggest rescue packages, investments and acquisitions — and show no signs of pulling back in 2023.

Those ambitions are already on show early in the year. Mubadala Investment Co.'s First Abu Dhabi Bank PJSC, one of the Middle East's biggest lenders, said it had explored a bid for Standard Chartered Plc, the British financial giant that's worth more than \$20 billion. That follows last year's flurry of deal activity in the region. Saudi Arabia's largest bank, partly owned by the kingdom's sovereign fund, became Credit Suisse's biggest shareholder. Bankman-Fried visited the United Arab Emirates in a last-ditch effort to secure funds before the spectacular collapse of his crypto exchange FTX.

Meanwhile, Indian billionaire Gautam Adani — the richest person in Asia — has been courting Middle East sovereign wealth funds as he attempts to raise roughly \$5 billion in equity across his sprawling business empire and reduce leverage, according to people familiar with the matter. Mukesh Ambani is

also said to be approaching Middle Eastern funds seeking investment in his energy businesses.

## **Middle East Funds Invested Heavily in the West in 2022**

The region's wealth funds spent almost \$89 billion on investments in 2022, double the previous year, according to data provider Global SWF. An outsized \$51.6 billion of that amount went into Europe and North America.

Yet vast pools of Middle Eastern capital remain untapped. Officials at Saudi Arabia's \$620 billion Public Investment Fund are under intense pressure to deploy money as Crown Prince Mohammed bin Salman accelerates efforts to wean the kingdom off its reliance on crude, according to people familiar with the matter. In Doha, the \$450 billion Qatar Investment Authority is on the hunt for more [overseas](#) deals after last month's soccer [World Cup](#).

In previous years, Gulf investors had a reputation for snapping up trophy assets like Manchester City Football Club, Manhattan real estate and Harrods department store. This time round dealmakers say they are being more tactical — using their wealth to claim a bigger role on the world stage, diversify their economies and win geopolitical influence.



The Etihad Stadium, Manchester, home to Manchester City Football Club. Photographer: Michael Regan





Harrods department store, Knightsbridge, London. Photographer: SOPA Images

“The region’s sovereign wealth funds unequivocally sit at the top table and have first-look on all global deals,” said Andy Cairns, Houlihan Lokey Inc.’s head of capital markets in the Middle East and Africa. It’s in keeping with a region that’s increasingly “articulating and asserting its economic and political ambitions on a global stage.”

The wealth funds bolstered their reserves as oil prices surged after Russia’s invasion of Ukraine, with Saudi Arabia pumping out as much as [\\$1 billion a day](#) in oil. Without the constraints of other global firms, they are expected to keep spending even as crude prices pull back. It’s a dramatic contrast with the US, Europe and China, where financing and deals have succumbed to higher interest rates and recession fears.

Hungry for cash, companies and banks from around the world are dispatching large teams to cities like Riyadh and Abu Dhabi to pitch investment ideas. But amid the frenzied levels of activity, some executives find themselves waiting days to meet the right officials, people with knowledge of the matter said. And when they make it to the right place, dealmakers can face a complex world, where the biggest decisions often require a nod from the ruling sheikhs, blurring the line between pure investment vehicles and politics, other people said.

Their newfound heft has emboldened the Gulf funds to be more strategic. Middle Eastern investors are now harder to win over and quick to reject deals that don't fit with their goals of nation building or generating returns, according to advisers and executives working with them.

"We're an active, not a passive, long-term investor. That means we have control of when to invest, when to monetize, and through board representation, when to be a voice for change," Waleed Al Mokarrab Al Muhairi, Mubadala's deputy chief executive officer, said in an emailed statement. "That means, in many circumstances, we get significant added value."

### **Largest Investments by Gulf-Based SWFs in 2022**

Note: Data showing deals with known stake percentage Source: Global SWF

So not everyone walks away with a big check. Bankman-Fried was [turned down](#) by Middle Eastern funds as questions started to swirl around the finances of his crypto companies, people familiar with the matter have said. Top fund executives can also turn cautious on large investments at the last moment, according to one banker, who had a \$5 billion deal fall through just before it crossed the finish line.

First Abu Dhabi Bank — partly owned by Mubadala and members of the emirate's ruling Al Nahyan family — was said to have explored a Standard Chartered deal for more than six months. Earlier this month, it said it was no longer pursuing the transaction. Any deal would have faced significant hurdles given the complexity of the transaction, people familiar with the matter said.

Nowhere are the intricacies of Middle Eastern dealmaking more on show than at the PIF's headquarters in the Digital City complex in the heart of Riyadh. There, the fund's building is part of a cluster of illuminated towers lit up with flashing images of the national flag, camels — and the face of MBS, as the de facto ruler is known. Nearby, the Crowne Plaza hotel has become a hang-out spot for fund executives and overseas advisers. Although many need long-term stays in the Saudi capital, some want to avoid relocating their families to a country that has a blanket ban on alcohol and where women weren't permitted to drive until 2018.



Attendees visit the PIF booth at the Future Investment Initiative conference in Saudi Arabia.  
Photographer: Tasneem Alsultan/Bloomberg





Yasir Al-Rumayyan. Photographer: Ian MacNicol

The PIF's governor Yasir Al-Rumayyan is increasingly taking on the role of a national statesman,

according to a person familiar with the matter. The former banker was the key accompanying official to Chinese President Xi Jinping during his December visit to Riyadh. That summit generated about \$50 billion of investment agreements in both the private and public sectors.

### **Number of Deals in Asia by Middle East Funds**

Al-Rumayyan's boss, MBS has been a controversial figure in the West since the 2018 murder of Washington Post columnist Jamal Khashoggi. Xi's visit was the latest sign that the Middle East is looking beyond the US for political and economic allies, and the PIF's strategy is starting to reflect the crown prince's view that the future lies with emerging markets, according to the person familiar with the fund. MBS has ordered a study to explore increasing the kingdom's investments in Pakistan to \$10 billion, state-run SPA reported in January.

Al-Rumayyan — who was catapulted from running a local investment bank to overseeing one of the fastest growing wealth funds — now sits on the boards of international behemoths like Uber Technologies Inc. and [Mukesh Ambani](#)'s Reliance Industries Ltd.

With a target of managing \$1 trillion of assets by 2025, PIF executives are obligated to source deals that fit with MBS's strategy for the kingdom, which seeks to make Saudi Arabia less reliant on income from oil sales, and expand into new industries through the PIF and acquisitions.

The PIF's approach "is not altered by oil prices, rather is set by our latest five year strategy announced in January 2021 which the fund is delivering on," a spokesman said by email.

The Saudi fund has a robust investment process that's commensurate with global asset managers and every board member plays an important role in discussions, he said.

### **Activity of the Top Five Middle East State-Owned Investors**

The largest Gulf funds invested over \$70B in 2022



Saudi National Bank's investment in Credit Suisse is intended to help the kingdom expand its wealth management and investment banking expertise, while developing the domestic banking sector. The PIF's investments in foreign carmakers such as Aston Martin Lagonda Global Holdings Plc and McLaren Group Ltd. fit with plans to make the country a manufacturing hub, while stakes in hotel chains such as Aman Group complement its ambition of becoming one of the world's most visited countries by 2030. The fund was also part of a private equity consortium that acquired a stake in Vodafone Plc's Vantage Towers, making it an investor in key European infrastructure.

The PIF has committed to investing over \$200 billion in Saudi Arabia's economy by 2025, an ambitious goal set by the crown prince that requires the fund to spend an average of \$40 billion a year. PIF executives fell short of that target in 2022 for the second year running, according to people familiar with the matter.

The fund "has accelerated its domestic investment to record levels," the spokesman said.

At times, pressure to deploy cash can run up against the fund's role in developing the Saudi economy. On at least one occasion the crown prince pushed back against an investment that he thought didn't add value to the country, and could be funded by other investors, according to a person familiar with the matter. Similarly, the PIF has been reluctant to invest in Hollywood studios even though they've been approached by several because of growing competition from streaming services, another person said.

Sovereign wealth funds in the region are reshaping their strategies, putting an emphasis on "supporting their local economies or wealth creation for future generations," said Rajesh Singhi, Standard Chartered's head of M&A in the Middle East and Africa.

Some European governments have become more cautious about their trading relationships with China, giving the Middle East more opportunities.

After German Chancellor Olaf Scholz's visit to Qatar in September, the QIA became a crucial backer of the German utility RWE AG with a 2.4 billion euro (\$2.5 billion) investment.

A QIA representative said by email that its strategy focuses on long-term value across a variety of sectors including "tech-enabled industries, renewable and low-carbon energy, and healthcare."



German Chancellor Olaf Scholz and the Emir of Qatar, Tamim bin Hamad Al Thani.  
Photo by Kay Nietfeld/picture alliance

Meanwhile, in 2021, Mubadala committed to [investing](#) 10 billion pounds (\$12.2 billion) in the UK for energy transition, infrastructure, and technology in a deal announced by the UAE's current ruler Sheikh Mohammed bin Zayed that aimed to show the country's support for the UK after Brexit.

Nevertheless, there are international political complexities. In the initial weeks after Russia's invasion of Ukraine, several Gulf wealth funds including Mubadala came under scrutiny from Western governments for their investment ties with Kremlin-linked firms, according to people familiar with the matter. Even though the UAE hasn't imposed sanctions on Russia, Mubadala said in March that it was [pausing](#) investments in Russia. A Mubadala representative didn't comment on whether the Russian investments attracted scrutiny and said there were no updates on its Russia strategy since the pause was announced.

Despite the busy pipeline of deals, Middle Eastern funds aren't immune to the volatility that's hit global markets. By the end of 2022, regional entities were expected to account for about half of the \$1.7 trillion in losses for sovereign wealth funds globally on equity and fixed income, according to Massimiliano Castelli, head of strategy in the global sovereign markets team at UBS Asset

Management AG.

Other longer-term investments have faced difficulties. The PIF has large investments in SoftBank Group Corp.'s Vision Fund, which likely posted record losses last year. The deal was brokered when Masayoshi Son and MBS hit it off in a brief meeting, according to people familiar with the matter. Son later told David Rubenstein in an interview that it took him just 45 minutes — 1 minute for each \$1 billion — to convince the then-deputy crown prince to invest.



Masayoshi Son, chairman of SoftBank, shakes hands with Mohammed bin Salman.  
Photographer: Jeenah Moon/Bloomberg

The fund still considers that investment to be positive for the kingdom because Son went on to introduce PIF officials to at least one other top executive at a foreign company that will build a manufacturing site in Saudi Arabia, according to the person familiar with the fund.

Among the Gulf funds, there's also a growing sense of exhaustion among officials after the flood of pitches that landed on their tables last year, according to bankers working with these entities.

Such concerns are unlikely to keep funds on the sidelines for too long. In the last few months, they've been associated with deals involving everything from a new football league being established in Brazil

to a string of England's top Premier League clubs.

"The ability to deploy capital for both a return on investment and for political goals is a luxury," said Karen Young, a senior research scholar at Columbia University's Center on Global Energy Policy. "Which illustrates the size and scale of this transformation in Gulf SWF assets."

feature image: Digital City, Riyadh, where the headquarters of Saudi Arabia's sovereign wealth fund (PIF) is located. Photographer: Fayez Nureldine/AFP

### **Category**

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