

## GROWING PROTECTIONISM COULD SLOW INVESTMENT IN REAL ESTATE, INFRASTRUCTURE BY SOVEREIGN WEALTH FUNDS

Property investment Preference for more liquid assets by Middle East funds and US disputes with key trading partners behind decline Comments: Sovereign investors are facing a tougher environment for deal making as rising protectionism threatens to curb inward investment and stunt trade, suggesting private market activity may have reached a plateau, said the co-author of a report released on Monday. You are signed up. We think you'd also like

In recent years, sovereign wealth funds have ramped up their exposure to real assets, snapping up iconic skyscrapers in London and Manhattan, luxury hotels and multi-year concessions for Australian ports. The aim was to tap the "illiquidity premium" on offer for investors able to tie up capital for longer as an alternative to low-yielding government bonds. But Bernardo Bortolotti, director of the sovereign investment lab at Bocconi University and co-author of a report showing a slowdown in sovereign wealth fund real estate and infrastructure investment in 2017, said the high watermark for private deal making had passed. This is partly because some Middle East funds have rebalanced their portfolios towards more liquid assets, such as equities, to accommodate draw downs from cash-strapped governments needing to plug budget gaps. But it is also because the United States is locked in an increasingly bitter dispute with its key trading partners, potentially reducing trade and global economic growth. Bortolotti said if exports fell, sovereign wealth fund growth rates and activity would also slow: "They still have US\$6 trillion-plus to deploy, but we have a structural break in the accumulation of assets," he said. "We are at a turning point ... Unless Asia can create an area of regional free trade to replace the intercontinental flows then the same issues that are emerging now in the Gulf could also emerge in Asia." This month, Singapore's GIC, a big sovereign investor in real assets, said it expected lower long-term returns in an uncertain investment climate. This echoed comments from peer Temasek, which is looking to temper the pace of its investments as trade tensions ratchet up. China's CIC also expressed concerns. Investing in US infrastructure will be very difficult, with any investment from China, for instance, being more carefully scrutinised. Photo: EPA-EFE

According to the sovereign wealth fund investment activity report, produced in association with the International Forum of Sovereign Wealth Funds, the number of property deals fell to 42 in 2017 from 77 a year earlier, while infrastructure investments fell to 28 from 33. The combined deal value fell to US\$23.2 billion in 2017 from \$25 billion. Sovereign wealth funds are finding it more difficult to find suitable properties in the commercial and office space – traditionally favoured targets – as more investors have entered the market, driving up prices. "There's more competition from Chinese insurers and large Asian institutions looking at core real estate in London and New York," said Victoria Barbary, the forum's director of strategy and communications. Growing protectionism is also likely to stymie foreign direct investment in strategic sectors, Bortolotti said. "Investing in US infrastructure will be very difficult now from a political standpoint – any kind of investment from China will be more carefully scrutinised, and that is spilling over into Europe." The US wants to strengthen the powers of its Committee on Foreign Investment in the United States to review transactions for national security risks. As a result, sovereign wealth funds are turning to Asia and Latin America, often investing through tie-ups with government entities to mitigate risk. In 2017, they completed 17 direct investments in emerging market infrastructure worth US\$3.8 billion, versus 11 deals in developed markets, worth US\$4.2 billion. "Working with a local partner, which may be a sovereign fund or strategic fund, makes these investments a lot more attractive," said Barbary.business-article-page