

SWFs: Investment Banks' New BFFs?

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By [Joshua Hamerman](#)

The credit crunch has made investment banks look overseas for a new source of income: sovereign wealth funds.

SWFs "have loads of capital in a capital-starved environment and they want to shift their allocation to riskier asset classes," says **Stewart Kim**, managing partner and founder of **PGP Capital Advisors**, which has relationships with two SWFs. "They're making some aggressive plays in a world that's more risk-averse than it was six months ago."

Last month, **Morgan Stanley**

established a team of investment bankers in Dubai to serve sovereign wealth funds and financial sponsors in the Middle East and North Africa. The group is led by **Dennis Cornell**, previously a New York-based senior coverage banker in the financial sponsors division. The team also consists of **Hugo Parson**, formerly part of the leveraged and acquisition finance group in London, and **Hani Ramadan**, who joined from **UBS'** financial sponsors unit.

In addition, **Barclays Capital** recently selected **Roger Jenkins** to step into a new role, chairman of investment banking and investment management for the Middle East. In the April 10 announcement about Jenkins' appointment, the bank states, "Many of the largest sovereign funds are based in this region as well as high-net-worth individuals and leading world-class companies."

"There's been a very noticeable increase in the number of investment banks not only establishing a presence here, but in the number of banks who've been here before increasing their presence and interest," says **David Church**, **DLA Piper's** Dubai-based regional managing partner for the Middle East.

Lehman Brothers

announced a few weeks ago that it created a new position, global head of SWFs, and tapped **Makram Azar**

to fill it. Azar, who started at Lehman in 1990 and was most recently head of European and Middle Eastern media, consumer and retail investment banking, is relocating to Dubai from London to take up his new role.

"We are the first bank to create a global position to head a centralized platform for delivering cross-divisional services to sovereign wealth funds," Azar told *IDD* during a visit to New York last week.

He is in the process of forming a team to cover SWFs around the world from Lehman's offices in Dubai and Asia.

"These institutions have more assets than hedge funds and private equity firms combined," says Azar. "Everyone's set up businesses to serve private equity and hedge fund clients, but very few players have woken up to this client base. They're expected to quadruple their assets over the next five years, so you need to have a dedicated effort to coordinate with different divisions of the firm for product delivery."

According to Morgan Stanley research, SWFs' assets will likely grow to \$17.5 trillion by 2017.

Despite recent high-profile acquisitions and equity stake purchases by SWFs, Azar doesn't expect M&A advisory assignments to account for most of his group's revenue. "M&A is only a small fraction of what

these institutions do, so most of the money to be made comes from other products," he says. Those include fixed income, equities, commodities, real estate, derivatives and investment management services.

The latter product area is one SWFs will require as they continue to grow. According to research from **McKinsey & Co.** and Morgan Stanley, the biggest SWF by assets, the **Abu Dhabi Investment Authority**, is the world's tenth-largest fund manager.

Lehman had been in discussions with Azar regarding his new role for a few months prior to the announcement. He was chosen in part because he worked with Saudi Prince **Alwaleed bin Talal** and SWFs such as the **Qatar Investment Authority** on communications investments earlier in his career.

Since Azar's mandate is a global one, he says it is important to deeply understand the funds' differences and strategies. SWFs run by Gulf state governments, for example, will not invest in alcohol, tobacco or gaming companies.

Window of opportunity

SWFs have been a [hot topic](#) of late due to their capital infusions into bulge-bracket investment banks. As a result, law firms, in addition to financial institutions, are also increasing their outreach to SWFs.

"If you look at the number of law firms that have moved into the Middle East in places like Dubai and Abu Dhabi, clearly there's been a substantial increase in activity," says **Jeanne Archibald**, a partner at **Hogan & Hartson** and director of the firm's international trade group. "And if you look at the investment that's done in those markets or by entities in those markets, a substantial part comes from sovereign wealth funds."

Archibald, who was general counsel of the US Department of the Treasury prior to joining Hogan in 1993, advised one SWF on a **Committee on Foreign Investment in the United States** review connected to a US financial sector investment.

When it comes to legal services, SWFs "are in many ways no different than private sector investors," says Archibald. "They're going to need assistance from corporate and regulatory lawyers with respect to helping carry through investments, and because of the interest on Capitol Hill now, they may need advice from lawyers who are accustomed to working on legislative policy matters."

Archibald adds, "I'd venture to guess that, certainly with respect to commercial investments, they would need the same type of services as any private entity, especially since they're sitting on large sums of money that have to be managed even when they're not being invested."

Efforts by the International Monetary Fund and the Organization for Economic Cooperation and Development

are changing lawmakers' perceptions of SWFs, says Archibald. "Increasingly, through the work of the IMF and OECD, the funds are recognizing that by being transparent and cooperative with respect to regulatory reviews, they can improve their standing here in the US and be seen as good corporate citizens."

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