



Sovereign Wealth Funds

Attractiveness of SWF Capital to Issuers

- **Ample capital available for initial investment and possible follow-up needs**
 - Opportunistic and flexible given recent skyrocketing size of assets
 - Average investment size of over 70 deals sampled since 2000 was over \$1 billion
 - Flip side is that due to implied high minimum capital deployment standards, SWF capital will likely remain large-cap territory for some time
- **Long-term investment horizon**
 - Very different from private equity's need to be able to control exit within certain timeframe
- **Deal structures, especially for SWFs with a primary objective of stabilization, often reflect emphasis on safety and diversification instead of highest absolute return**
 - Part of strategic long-term economic planning for country
 - Sector and geographic diversification
 - Target IRRs and benchmarks for these funds are often difficult to obtain in the private equity allocation
- **Relatively passive investors from governance standpoint**
 - Generally not seeking Board representation
 - Will take minority stake in both public and private companies

SWF Investments Profile

Sectors

- **Heavily weighted to financial services and asset intensive industries (real estate, telecommunications, etc.)**
 - Perception that investing in commercial lending, brokerage and asset management type companies will lead to knowledge transfer benefiting the SWFs
 - Asset intensive businesses are easier to understand as they are most tangible and lend themselves to more objective financial analyses such as replacement cost
- **Leisure & Entertainment sector and premium or luxury brands have also been of interest to SWFs. Oil money flowing to Hollywood and film funds, but primarily to content-themed local infrastructure and foreign real estate projects**

Geographic

- **U.S. is major recipient of direct investments due to financial transparency, open capital markets from regulatory standpoint, perceived safety (stable economy and liquidity) and, more recently, dire need**
- **Asia, due to its growth potential and geographic proximity to several of the largest SWFs, is also attracting significant direct investments to the region**

A Significant Source of Capital

With over \$2.8 trillion in assets and growing, sovereign wealth funds are becoming a significant capital source in today's global capital market

Estimated SWF Assets

Country	Fund Name	Assets (\$ in billions)	Inception Year	Source of Funds
UAE	Abu Dhabi Investment Authority	\$875	1976	Oil
Norway	Government Pension Fund - Global	341	1990	Oil
Singapore	GIC	330	1981	Other
Saudi Arabia	Various Saudi Arabian funds	300	-	Oil
Kuwait	Kuwait Investment Authority	250	1953	Oil
China	China Investment Corp.	200	2007	Other
Singapore	Temasek	159	1974	Other
Libya	Oil Reserve Fund	50	2005	Oil
Algeria Qatar	Fonde de Regulation des Recettes	43	2000	Oil
Qatar	Qatar Investment Authority	40	-	Oil, Gas
US (Alaska)	Permanent Reserve Fund	38	1976	Oil
Brunei	Brunei Investment Authority	30	1983	Oil
Malaysia	Khazanah Nasional BHD	26	1993	Other
Russia	Stabilisation Fund	24	2003	Oil
Korea	KIC	20	2006	Other
Other	Other	101	-	-
Total		\$2,827		
Oil & Gas Related Funds		2,055		
Non-Oil Related Funds		773		

Source: Reuters and Morgan Stanley Research

Deal Sourcing and Organization

SWFs Are Investment Bankers' New Best Client

- Deal professionals swarming CIOs and investment staff of SWFs
- Generating significant fees for investment banks in a depressed environment

Singapore's GIC and Temasek are the model SWFs to which newcomers such as Korea Investment Corp. aspire

- Temasek's CEO, Ho Ching, is wife of Singapore's Prime Minister and daughter-in-law of Lee Kuan Yew
- Very extensive deal origination network with investment offices in U.S. and Europe
- Even at earlier stage in 1980s, these funds brought in numerous non-Singaporeans with backgrounds in asset management and investment banking

Deal Structures – Shift in Terms in Favor of SWFs

Select SWF Investments in Financial Institutions

Date	SWF	Issuer	Amount (in millions)	Investment Type	Structure	% Ownership Post Conversion	Board Seat
Mar. 2006	Temasek Capital	Standard Chartered	~\$4,000	Common shares	Purchased from the estate of Khoo Teck Puat	11.6%	None
May 2007	Dubai International Capital	HSBC	-	Common shares	Minority stake	-	None
May 2007	Dubai International Financial Centre	Deutsche Bank	-	Common shares	Minority stake	2.2%	None
May 2007	China Investment Corp.	The Black Stone Group	\$3,000	Non-voting common shares	Purchase price at 95.5% of the company's IPO price	9.3%	None
Jul. 2007	China Development Bank (CDB) & Temasek Capital	Barclays	£2,500	Common shares and warrants	Additional investment of £6,500 million at £7.40 per share conditional upon merger completion with ABN AMRO, a portion of the additional investment available to existing Barclays shareholders through a clawback placing; 122 million warrants with exercise price of £7.80 per share and exercise period of two years conditional upon merger completion; standstill agreement limiting CDB to below 10% for three years	5.2%	CDB to nominate a non-executive Director and Temasek to nominate a non-executive Director upon merger completion
Nov. 2007	Abu Dhabi Investment Authority	Citigroup	\$7,500	Upper "DECS" (units consisting of a contract to purchase stock at different dates, and remarketable preferred securities in certain Trusts that hold junior subordinated debt of Citigroup)	Equity units bears 11% interest rate per annum, payable quarterly; the contracts to purchase common shares on predefined settlement dates will be paid using proceeds from remarketing the trust preferred securities; anti-dilution provision; standstill provision including a prohibition on acquisition of more than 4.9% voting shares	-	None

Source: Company filings and publicly available information

Deal Structures – Shift in Terms in Favor of SWFs

Select SWF Investments in Financial Institutions

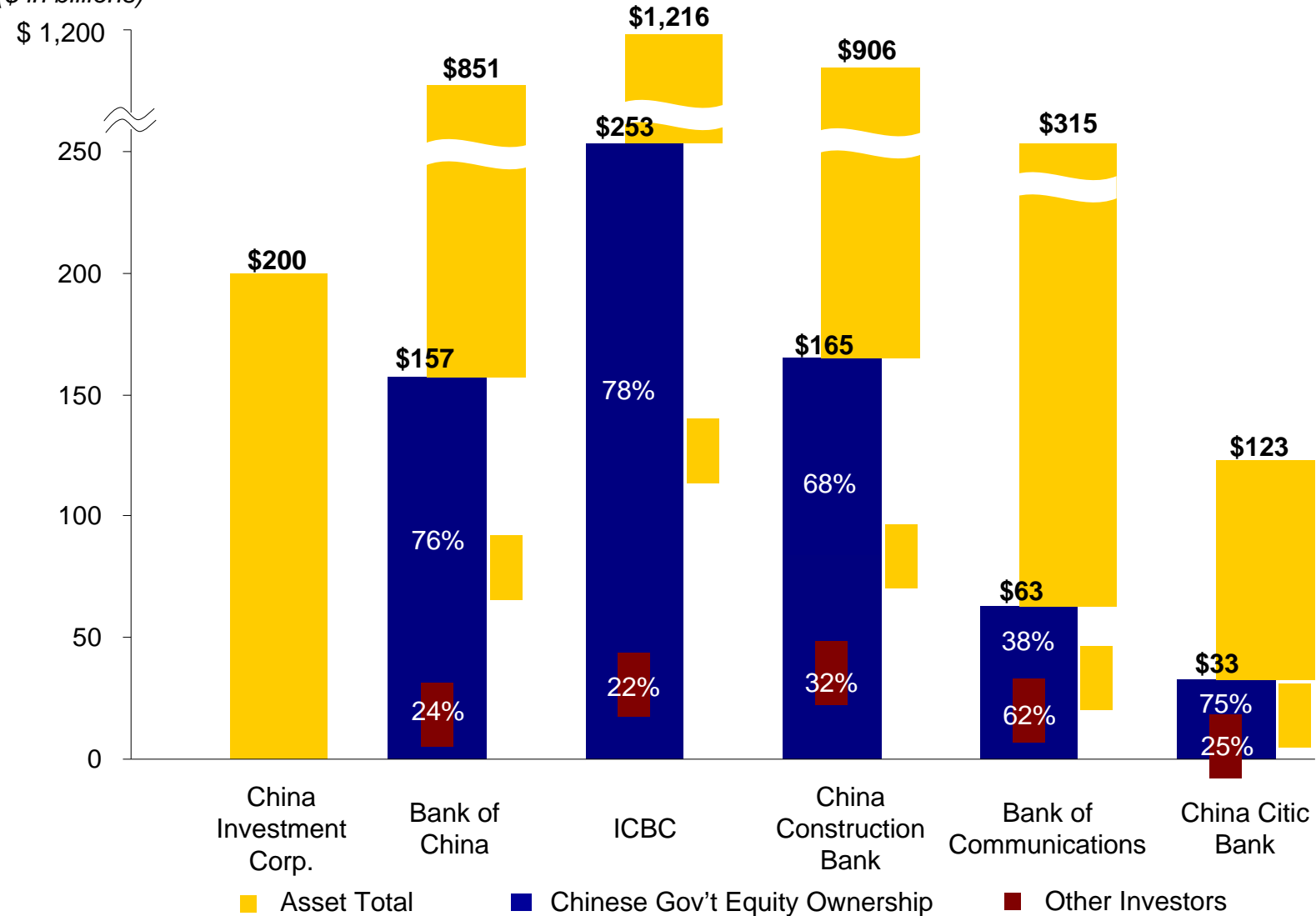
Date	SWF	Issuer	Amount (in millions)	Investment Type	Structure	% Ownership Post Conversion	Board Seat
Dec. 2007	Government of Singapore Investment Corp. & unknown Middle Eastern investor	UBS	CHF 13,000	Mandatory convertible notes	9% coupon, payable annually; mandatorily convertible within two years from issuance at a price between 100% and 117% of the reference price (average of CHF 57.2 and the average of the three daily VWAPs on virt-x for the three days prior to the extraordinary shareholders meeting), which is subject to a CHF 51.48 minimum and a CHF 62.92 maximum; anti-dilution protection	~9.75%	None
Dec. 2007	China Investment Corp.	Morgan Stanley	\$5,579	Premium equity participating security units (consisting of a common stock purchase contract and a trust preferred security)	Annual payment rate of 9%, payable quarterly; equity unit mandatory conversion into common shares between \$48.07 and \$57.684 (20% premium) on 08/17/2010; pre-emptive rights; anti-dilution protection	< 9.9%	None
Dec. 2007	Temasek Capital	Merrill Lynch	\$4,400	Common shares	Option to buy 12.5 million additional shares at greater of Dec. purchase price or 90% of then current FMV by March 2008 if Temasek's ownership remains below 10%; anti-dilution protection	~9.5%	None
Jan. 2008	Korean Investment Corp. & Kuwait Investment Authority	Merrill Lynch	\$4,000	Non-voting mandatory convertible preferred stock	9% dividend per annum, payable quarterly; mandatory conversion at maturity on 10/15/2010 between 100% and 117% of \$52.40 reference stock price; mandatory conversion if the company needs to treat the issue as Tier-1 Capital; limited pre-emptive rights; anti-dilution protection	-	None
Jan. 2008	Government of Singapore Investment Corp. & Kuwait Investment Authority	Citigroup	\$9,880	Convertible preferred stock	7% dividend payable quarterly; 20% conversion premium; perpetual, non-callable prior to year 7, force conversion after year 5 if stock price exceeds 130% of the conversion price; no pre-emptive rights	~5.4%	None

Source: Company filings and publicly available information

China's Growing Clout

Asset Size and Equity Ownership

(\$ in billions)



Middle East SWFs and Hollywood

Select Investments/Partnerships in Media and Entertainment Sector

SWF	Media and Entertainment Company	Project
Tatweer (subsidiary of Dubai Holding)	Dream Works Animation	Strategic alliance to develop tourism and leisure projects in Dubai including a 5 million sq. ft. theme park
Dubai International Capital	Sony Corp.	Acquisition of <5% stake in \$1 billion to \$1.5 billion range
Abu Dhabi Investment Authority	Warner Brothers	Broad strategic alliance including a \$500 million film fund, a \$500 million video game fund, an Arabic-language production fund and several real estate projects, including a theme park, hotel complex and movie theaters
Tatweer (subsidiary of Dubai Holding)	Universal Pictures	\$2 billion Universal City Dubailand project with theme park, hotel, restaurant and retail developments
Arab Media Group (subsidiary of Dubai Holding)	Viacom	Strategic partnership to launch MTV Arabia and an Arabic-language Nickelodeon channel
Prince Alwaleed Bin Talal Alsaud of Saudi Arabia	News Corp., Time Warner and Disney	Minority stake investments

Source: Variety Magazine and Hollywood Reporter

Current Trends

SWFs Rescuing Major U.S. Real Estate Developments Mid-stream

- SWFs are stepping into shoes of original investors and lenders to fill financial holes on landmark development projects
- MGM Mirage formed a long-term strategic partnership with Dubai World through a ~\$5 billion investment which includes a tender for MGM shares to give it a 9.5% ownership stake in MGM. The capital injection will provide additional fund for MGM's CityCenter development project and a reduction of \$3.9 billion in MGM's liabilities
- In December 2007, Related Cos. brought in Dubai's Istithmar for \$100 million into its \$3 billion Grand Avenue Project in downtown Los Angeles amidst speculation that the development was in deep trouble. Also late last year, Mubadala Development Co. and Kuwait Investment Authority took part in a \$1.4 billion strategic investment in Related Cos. in the form of long-term subordinated debt

New SWFs Making Non-Traditional Investments

- Korea Investment Corp. invested in Merrill Lynch which is in stark contrast to its historical allocation which has been almost entirely to very liquid assets, primarily sovereign bonds
- China Investment Corp. took an equity stake in Blackstone and made a significant investment in Morgan Stanley, both of which have drawn criticism due to subsequent decline in valuation

Current Trends (continued)

More SWFs Following Singapore Model

- Initially farm out a significant portion of management of riskier foreign asset classes to external managers but manage more funds internally over time
- Greater transparency of fund objectives and target benchmarks to outsiders (Norway, Alberta)
- Pension plan organization model with greater allocation of portfolio to riskier asset classes over time and more willingness to do one-offs

SWFs Will Act More Like Private Equity and Hedge Funds

- Greater tolerance for risk in the future if monetization occurs with positive results
- Will compete for mainstream transactions in U.S. and Europe with larger funds and will emphasize their positioning as long-term patient and passive capital
- Will be a source of liquidity for private equity deals needing to de-leverage or seeking exit