Oxford Handbooks Online

Spain and Sovereign Wealth Funds: Four Strategic Governance Types

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The Oxford Handbook of Sovereign Wealth Funds
Edited by Douglas Cumming, Geoffrey Wood, Igor Filatotchev, and Juliane Reinecke

Print Publication Date: Oct 2017
Subject: Business and Management, Finance and Economics, Government and Law
Online Publication Date: Nov 2017 DOI: 10.1093/oxfordhb/9780198754800.013.8

Abstract and Keywords

During the last decade, Spain has become a sovereign wealth fund (SWF) investment destination. This chapter begins by outlining the factors that have led SWFs to Spain. Second, it discusses the different corporate strategies that SWFs exhibit when investing in Spanish companies. It examines these investments in the context of an existing typology of four different strategic governance approaches: corporate governance supervision, in-house capabilities enhancement, international recognition and developmental and learning goals. It then shows how these four strategies are effectively implemented drawing on four investment SWF cases in Spain. The chapter concludes by proposing four new areas of fruitful research on SWFs in fields such as economics, management and international business.

Keywords: sovereign wealth funds, corporate governance, state capitalism, institutional investors, activism, ownership, Spain, long-term capitalism

Introduction

SOVEREIGN wealth funds (SWFs) are government-owned investment funds with no pension liabilities (Aguilera, Capapé, and Santiso 2016). They manage worldwide US$7 trillion (IE Sovereign Wealth Lab 2016). These global investors are becoming popular in financial and economic circles with a frequent presence in financial and general media. Recently, changes announced by the deputy crown prince Mohammad bin Salman to transform Saudi Arabia's Public Investment Fund (PIF) into the largest SWF brought the topic once more to the headlines. In fact, today we find SWFs involved in many global events. The Volkswagen emissions scandal is applicable: Norway's Government Pension Fund Global (GPFG)—under a renewed effort to act as a responsible shareholder—is suing the German carmaker for wrongdoing and specifically addressing the poor corporate governance of the firm. Simultaneously, Qatar Investment Authority (QIA), another SWF and third largest shareholder of Volkswagen, is losing US$3.3 billion of the value of its stock in Volkswagen, due to the emissions scandal. This illustrates how SWFs have come out of the shadows and on to the main stage of corporate governance global cases.

Only a decade ago, SWFs were banned from investing in Western "strategic assets" such as ports, oil companies, and defense industry. Following the 2008 global financial crisis, SWF presence took a different turn. Today, SWFs are not only the owners of Heathrow, the busiest passenger airport in Europe, or the sponsors of Real Madrid Football Club, the current UEFA's Champions League champion (Real Madrid is (p. 520) supported by Emirates Airlines and International Petroleum Investment Company, IPIC, from Dubai and Abu Dhabi respectively) but they are players with key strategic roles in some of the largest international business deals.

Another interesting case is the ride-hailing industry in Asia. Uber, the industry leader based in San Francisco and valued at US$63 billion (as of May 2016), is supported by Qatar and recently by Saudi Arabia (they invested through PIF more than US$3.5 billion in the privately held company). Conversely, SWFs from Singapore and China are supporting Uber's local rivals in India, Singapore and China. Hence, SWFs are also betting and competing in disruptive industries and start-ups. With generally long-term horizons, SWFs are equipped to invest in start-ups today and reap the profits of these future market champions.

These two recent examples illustrate the changes in the perception of SWFs by target companies and countries. In sum, they also reflect a transformation in the nature of this heterogeneous group. SWFs, as organizations, evolve over time, and become more sophisticated and expand their investment activities to new industrial sectors and territories.

This chapter analyzes these recent strategic changes through the SWF investments in Spain. The case of Spain is relevant because SWFs before and after the financial crisis align with SWFs' long-term objectives. In fact, during the worst part of the financial crisis, Spain became the main investment destination of SWFs within the European Union, ahead of the UK, Germany and France (Santiso 2012). This foreign location choice exemplified many SWFs' goals of capturing value for the long run instead of looking for short-term returns. While this holds for some SWFs such as IPIC or QIA, some SWFs such as Norway's GPFG chose to divest from Spanish public and private debt during those years. This shows that the SWF landscape is complex because it encompasses a heterogeneous group of organizations.

This chapter begins by discussing the specific economic conditions of Spain that have attracted the investments of SWFs: the economic crisis, the linkages of Spanish multinational companies with Latin America, the internationalization of equity and the financial sector reform. Then, it analyzes four strategic governance types followed by SWFs when investing in Spain: corporate governance supervision, in-house capabilities enhancement, international recognition and developmental and learning goals. It examines these four strategic governance approaches through four different SWFs investing in Spain: Norway's GPFG, Kuwait Investment Authority (KIA), Qatar Investment Authority (QIA), and the Oman's State General Reserve Fund (SGRF). The deal closed by the SGRF establishes the *de facto* first Spanish co-investment SWF. The chapter concludes with proposals for four areas of fruitful future research.

The Spanish Economic Context

Spain is the fifth largest economy in the Eurozone and twelfth in the world (International Monetary Fund 2016). The country relies on four economic pillars for economic growth: (p. 521) food and beverage (represent 13% of GDP), real estate (12%), construction (12%), and tourism (11%) (Instituto Nacional de Estadística 2016). Among its strengths, Spain has world-class infrastructure, high life expectancy, and high quality management schools. Conversely, its labor market and tax system inefficiencies, the challenges of starting a business and the poor quality of education persist as major weaknesses.

Spain's recent economic events are marked by the burst of the real estate bubble and consequent credit crunch. Spain experienced its golden years from 1998 to 2007. It grew faster than any other large European economy, except Ireland, at an average annual GDP growth of 3.9%, doubling the growth rate of Germany and France during this period (International Monetary Fund 2016). Yet, this growth was not evenly distributed and the Spanish economy became extremely dependent on the housing sector. When the global financial crisis started in the US, the European housing markets suffered a trickle-down effect. In 2007, Spain was constructing more residential real estate than Germany, France, and Italy combined. The housing dependency was accompanied by poor corporate governance and political ties in regional saving banks that were building dangerous speculative developments. Additionally, low interest rates fueled investment in real estate by foreign banks and financial institutions from the Eurozone. The real estate bubble collapsed in 2008, provoking a strong credit crunch (Bentolila, Jansen, Jiménez, and Ruano 2013). Since then, property prices have halved, unemployment rates reached historic records of 26.1% and the economy was forced to painfully adjust in real terms. Although the GDP recovered to 2008 levels six years later, the International Monetary Fund (2016) estimates the unemployment rates will not be back to pre-crisis levels (15%) until 2020—far from low rates of 8.2% in 2007. In conclusion, both the weak governance in saving banks and political interference are important factors leading to the financial crisis in Spain. These two factors led to an enormous investment in real estate by the financial sector, which plummeted when the real estate bubble burst.

However, the most recent economic data shows once again that Spain is growing faster than the euro block. Its economy has grown at an annual pace of 1.2% and 3.2% in 2014 and 2015 respectively, since the worst of the crisis in 2013 (Instituto Nacional de Estadística 2016). For some economists, the main reason behind the recovery is Spain's export industry, fueled by a steady fall in unit labor costs and the collapse of domestic demand. Other economists point to the bailout package from the European Union in 2012 as a main explanation for the current growth (*The Economist* 2015). Regardless, while the "flow" is upward looking, the "stock" of unemployment will take years to be cleared.

Another key factor to understanding the current state of the Spanish economy is that its multinational companies have solid ties with Latin America. In the early 1990s, Spanish multinational enterprises (MNEs) made a strong bet on the Latin American markets and expanded rapidly in banking, infrastructure, oil, telecommunications and engineering. In terms of investments stock, Spain is the second largest investor in the region after the US. The Spanish MNEs have benefited from this exposure to Latin America. It helped to ease the difficulties when domestic demand contracted (p. 522) substantially. This special feature of the Spanish MNEs, frequently known as Euro-Latinas, is a characteristic that makes Spain attractive for institutional investors, including SWFs.

Spain has received a solid flow of foreign direct investments since 2013 as a result of an improved economic environment, its strong Latin American connections and its more stable institutional context in the financial sector. In the period from January 2014 to June 2015, Spain received more than €4.6 billion in SWF direct investments (Capapé 2015). The interest shown by SWFs in the Spanish economy and its companies follows a double logic. First, after years of severe economic crisis, Spain's GDP rates are growing above the European Union's average. Second, Spanish companies have strong ties with the emerging and growing region of Latin America. Thus, SWFs' investments in Spanish Euro-Latin companies get exposure to fast growth rates in emerging markets in a low-risk institutional environment. Investing in Spanish companies means reaping yields in emerging economies (Colombia, Peru, or Mexico), while operating in a safer and well-regulated institutional environment.

Still, beyond economic recovery and Latin American connected multinationals, there are two other specific underlying reasons which might also account for the current interest of institutional investors in the Spanish economy: a new openness to foreign shareholders and the 2012 financial reform. Both are discussed in more detail in this chapter.

Openness to Foreign Shareholders

SWFs have taken advantage of the Spanish multinational corporations' opening up process since 2005, revealing their significant investment capacity. In 2006, foreign investors controlled 33% of listed equities, yet by the end of 2014, this figure had grown ten points to 43%. In the years 2013 and 2014, the pace of net stock investments accelerated with net inflows above €7 billion per year. A group of institutional investors, which includes several SWFs, led this trend. Almost 30% of foreign portfolio investments in Spain came from institutional investors. Their investments in the IBEX35 companies, the reference stock index representing the largest 35 Spanish stocks, totaled €113 billion.

Among these investors, Norway's SWF led the ranking with €7.7 billion invested in 32 stocks, followed by Vanguard, Blackrock, and Lyxor (see Table 20.1). The fifth largest investor was again an SWF, QIA from Qatar, with a single investment in Iberdrola (a Spanish utility company), valued above €3.5 billion. This concentrated investment style contrasts substantially with the rest of the asset managers' leading foreign investments in Spain, most of which invest in about 30 different stocks.

Iberdrola, the fourth largest company by market capitalization in which QIA controls 9.6%, is an illustrative example of the high shareholding escalation in the largest Spanish companies. Specifically, it shows the growing internationalization of their shareholders. (p. 523) At the onset of the 2008 financial crisis, all significant Iberdrola stakes (above 5% of shares) were in the hands of Spanish institutional investors, which totaled 25% of all shares. By 2012, following the entrance of QIA, domestic interests had halved, with the percentage falling to 16%, and bottoming to 7.5% in 2014. In parallel with this, holdings of foreign entities rose, among them QIA and other international investment funds. In 2009, not a single foreign investor had controlling stakes. In 2012, QIA, Blackrock and Société Générale were close to holding 15% of all shares and, by the end of 2014, the majority of shares of significant holders were foreign-owned.

Table 20.1 Selected Institutional Investors in the Spanish IBEX-35

Asset Manager	**Country**	**Stock Value* (€M)**	**# Stocks**
Norges Bank Investment Management	Norway	7,761	32
The Vanguard Group Inc.	US	6,199	33
BlackRock Fund Advisors	US	5,496	33

Lyxor International Asset Management SAS	France	4,555	33
Qatar Investment Authority	Qatar	3,527	1
BlackRock Investment Management Ltd	UK	3,233	32
Amundi SA (Investment Management)	France	3,008	26
Capital Research & Management Co	US	2,918	9
BlackRock Advisors (UK) Ltd	UK	2,203	33
BlackRock Asset Management Deutschland AG	Germany	1,979	27
GIC Pte Ltd	Singapore	838	1

Source: Authors' elaboration with data from Bolsas y Mercados Españoles (2015).

(*) Valued March 2015.

In a sense, one could say that while the decade of the 2000s was characterized by the internationalization of revenues for many Spanish multinationals, the 2010s appear to be the decade of the internationalization of capital. SWFs are not missing out on the opportunity to enter into the fifth largest economy of the Eurozone.

Financial Sector Reform in Spain: Divestments and New Investment Opportunities

The financial crisis acted as an engine fostering the Spanish equity internationalization. It was precisely the reshaping of the banking sector, and in particular the saving banks (or so-called *cajas*) that followed the global crisis, which created a substantial shakeup and opened up investment opportunities to foreign investors. (p. 524)

Following the recommendations made by the International Monetary Fund, European Central Bank and the European Commission in the memorandum of agreement signed in 2012, Spanish authorities were encouraged to recapitalize and restructure the country's banking system. One of the decisions that followed implied a divestment program for the financial institutions owned by the Fund for Orderly Bank Restructuring (FORB, the Spanish program initiated in June 2009 to provide cash assistance in distressed banks). Banks and saving banks began to sell their shares in industrial companies, which opened the door of share capital to new investors, including foreign players. In Iberdrola, for example, Société Générale and Blackrock acquired stronger holding positions, while Bankia, a large *caja* that received €22 billion from FORB, sold its 5% shares interest. Other Spanish companies followed a similar path by selling banking shares, thereby opening up opportunities for foreign capital ownership investment.

For instance, Spanish Deoleo, the world's largest olive oil producing company, was exposed to these divestments. Bankia and BMN (another savings bank) sold their 30% interest to CVC, a London-based private equity. Following a comprehensive strategy to foster the Italian food and beverage industry, the Italian SWF, Fondo Strategico Italiano (FSI), manifested its interest in Deoleo, although the stake was eventually acquired by CVC, an option the Spanish government preferred to the Italian public investor. This case shows the potential conflicts of interest that emerge when public investors try to acquire strategic assets in a given country, especially if the target company has the state as a shareholder.

Similarly, Globalvia, an infrastructure company half owned by Spanish savings bank, Bankia, attracted the interest of another SWF. In this case, Malaysia's Khazanah negotiated with the savings bank to acquire Globalvia. They agreed to close the transaction on (p. 525) €420 million. However, in the last minute, the former creditors exercised their preferential purchase right and acquired the infrastructure company.[1]

Table 20.2 Bankia: The Divestment Process Attracts Foreign Interest

Industrial holding	Stake sold	Acquirer	Country	SWF/SOE Involved
Deoleo	18%	CVC Capital Partners	UK	FSI
Realia	28%	Carso (Carlos Slim)	Mexico	
Globalvia	50%	USS, OPTrust, and PGGM	Netherlands, UK, Canada	Khazanah
Metrovacesa	19%	Santander	Spain	
Indra	20%	SEPI	Spain	
Iberdrola	4.9%	Qualified investors		
NH Hotels	12.6%	Qualified investors		
Mapfre	12%	Qualified investors		

Source: Authors' elaboration from companies' press releases and media news.

It is important to stress how the divestment process pursued by Bankia and other Spanish *cajas* after the financial sector reform has attracted a significant amount of institutional investors—including two sovereign wealth funds from Italy and Malaysia—in such diverse sectors as real estate, infrastructure, engineering, and insurance (see Table 20.2).

Sovereign Wealth Funds In Spain: Four Strategic Governance Types

In a short period of time, Spain has witnessed the entrance of a heterogeneous group of SWFs that have either invested in the country or acquired Spanish-owned assets abroad. As detailed earlier, although each SWF has different goals and backgrounds, the recent openness to foreign shareholders, the financial sector reforms, a partial economic recovery, and the exposure of Spanish companies to Latin American markets explain the growing presence of SWFs in Spain, and make the country an excellent field laboratory to examine SWF investment strategies.

Aguilera, Capapé, and Santiso (2016) developed a typology to analyze SWF activities. They categorized SWFs along two main dimensions: risk strategy (measured as the share of their portfolio invested in private equities) and investment purpose (whether the SWF investments are aligned with a broader state's geo-economic and development strategy). Figure 20.1 identifies the resulting four strategic governance types: responsible investments, enhanced in-house capabilities, legitimacy seeking, and learning through co-investments. Although for any given SWF, these two dimensions may overlap and change over time, it is possible to differentiate SWFs according to this 2x2 matrix. It provides a useful strategic governance framework for explaining the investments made by SWFs in Spain.

The discussion in this chapter now moves to SWF case studies and provides evidence of the four distinct strategic governance types. We begin with Norway and the role its SWF has played in improving the corporate governance of Spanish companies. Second, we discuss how an SWF can also develop its own corporate governance in order to embrace more direct, complex transactions: as in the case of Kuwait and its enhanced in-house capabilities. Third, we focus on Qatar and its comprehensive strategy that deploys different state-controlled mechanisms in order to garner an enhanced international reputation and legitimacy. Finally, we review the case of the new domestic co-investment SWF jointly established by Spain and Oman's State General Reserve Fund, comparing it to other similar vehicles that had established in Europe in recent years. (p. 526)

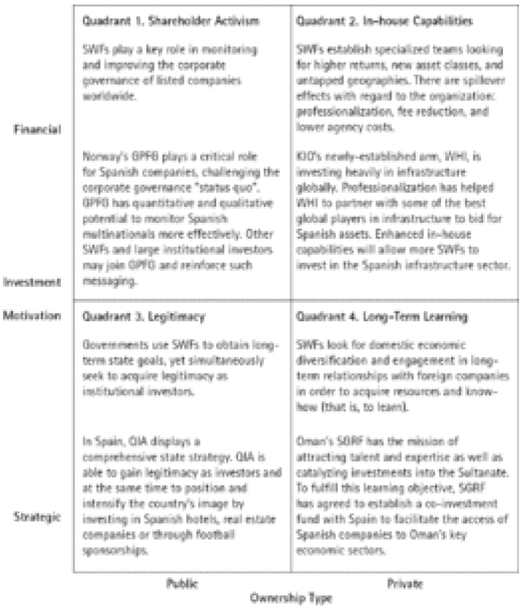

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Figure 20.1 Strategic governance types of SWFs

Norway as the Responsible Investor

Norway's Government Pension Fund Global[2] (GPFG) is the world's largest sovereign wealth fund with over US$850 billion assets under management (as of December 2015). According to our organizing framework (Figure 20.1), GPFG is a financial investor because its main goal is to generate "high returns and safeguard wealth for future (p. 527) generations" (Norges Bank Investment Management 2015). Also, GPFG's low risk implies that it invests heavily in public (listed) markets and only 3% in real estate (private markets). Thus, we classify GPFG in Quadrant 1 of Figure 20.1. GPFG tries to protect the value of its listed companies by exercising an active shareholder role with the goal of improving the corporate governance of its investees. It has a positive impact on Spanish multinational companies.

Norway is the world's third largest natural gas exporter. This enormous offshore wealth, although limited, is being transferred gradually into long-term financial wealth, as a means of obtaining intergenerational justice so that future generations may benefit from today's wealth. Only recently, GPFG made a radical move by deciding that it would play an active role as a shareholder. Precisely, the Norges Bank Investment Management (NBIM)—the investment unit of Norway's central bank that is in charge of the GPFG—has led the initiative to pursue higher governance standards in the companies in which it has increased its participation. In Europe, the potential impact of this shareholder engagement is crucial because GPFG owns about 2.5% of all stocks traded in the continent.

GPFG's renewed interest in active ownership responds to three key assumptions on the effects of good governance in companies: it leads companies to attain profitability, ensures shareholder rights protection, and guarantees an equitable distribution of profits. Along with improved corporate governance, GPFG encourages companies to enhance their social and environmental standards. In spite of this, the causal relationship between better governance and more profitable companies is an ongoing scholarly debate (Siddiqui 2015). In particular, GPFG considers six strategic focus areas for its active ownership activities: equal treatment of shareholders, shareholder influence and board accountability, well-functioning, legitimate and efficient markets, children's rights, climate change risk management, and water management.

NBIM has established these new goals for the GPFG, and is already taking measures to guarantee that the responsible investment principles are implemented through the appointment of a corporate governance advisory board, which is composed of three corporate governance experts. GPFG's goal is to safeguard and increase the value of its investments in more than 9,000 companies worldwide. By the end of 2015, the fund's holdings had expanded to 78 countries and 51 currencies. GPFG claims that voting at the annual general meeting (AGM) is one of their most important tools in exercising its rights as shareholder and in 2015, GPFG voted in 11,562 AGMs and held meetings with 3,250 companies.

GPFG follows a "name and shame" strategy—once used by CalPERS (California Public Employees' Retirement System, a large public pension fund)—and publishes the list of companies excluded from the fund's investment portfolio after hearing the recommendations from the Council of Ethics (appointed by the Ministry of Finance). Since the establishment of the fund, the Ministry of Finance had responsibility for making these final decisions; yet, recently, the central bank has taken this role in an attempt to generate (p. 528) more politically independent decisions. In August 2015, the central bank excluded four companies due to severe environmental damage: the Korean Daewoo International Corporation, a conglomerate, and also its parent company, the steel-maker POSCO; and two of the Malaysia's leading conglomerates, IJM Corporation and Genting Corp. These companies were converting tropical forest into palm oil plantations in Indonesia.

GPFG's responsible investment strategy includes an active selection of sustainable companies. That is, not only does the Council of Ethics announce the list of companies excluded from the investment portfolio following their ethical guidelines (i.e. tobacco, weapons, human rights violations, etc.), it also recommends companies in which to invest. In this sense, for example, pulp and paper companies, which are strongly linked to water resources and specifically to forest conservation, are of great interest to a responsible investor. This "long-term investment" style seeks to generate an imitative process at the local or regional level, and bias the investment strategies followed by other institutional investors (Vasudeva 2013).

Another measure taken by GPFG is to reinforce its commitment to enhancing the corporate governance of its investee portfolio companies by releasing its voting intentions ahead of AGMs. This tactic has been used in three large companies where GPFG has ownership participation: BP, Royal Dutch Shell, and AES Corporation. The former two were among the fund's top ten largest equity holdings as of third quarter 2015.

The shareholder activism demonstrated by GPFG in demanding higher standards of corporate governance reflects two main facts: the benefits of the internationalization of the shareholder base for the Spanish economy, and the potential impact of SWFs in leading this new trend.

Government Pension Fund Global Investments in Spain

Foreign institutional investors can play a key role as major influential shareholders. In Spain, with the growth of foreign institutional investors' stakes in recent years, the potential conflict of interest between managers and key shareholders has grown accordingly. In many large companies, between 20% and 40% of shareholders opposed management proposals, whereas a few years ago the opposition was minimal. Fund managers such as Blackrock, Vanguard, and Amundi present in large Spanish listed multinationals voted against resolutions and forced the board to better explain to shareholders decisions they proposed for the annual general meeting (AGM)'s approval.

By the end of 2015, GPFG had investments in 80 Spanish listed companies worth US$8.9 billion; the majority of investments were in banking and utilities (see Table 20.3 for top ten holdings in Spain).

If we dig further into the analysis of Norway's investments in Spain, we identify some interesting trends. Table 20.4 shows the list of Spanish companies in which GPFG keeps a larger controlling vote ability. It is remarkable that three of the top five companies belong to the paper/pulp industry. This is no coincidence as these kind of investments are aligned with the responsible investment global strategy pursued by the Norwegian (p. 529) fund. GPFG invests in more than 9,000 listed companies, but when this list of corporations is ordered according to the voting control GPFG exercises, it appears that three among the top ten companies are also forest- and paper-related companies: The Irish Smurfit-Kappa, the Swedish Svenska Cellulosa, and the Finnish UPM-Kymmene (Norges Bank Investment Management 2015).

Table 20.3 Top Ten Equity Holdings in Spain by the Government Pension Fund Global

Company	Sub-Industry	Value (US$)	% Votes
Iberdrola SA	Utilities	1,338,267,389	2.97
Banco Santander SA	Banking	1,265,612,160	1.77
Inditex SA	Textile, Garment & Shoes	985,766,097	0.92
Telefónica SA	Telecoms	769,280,099	1.39
Banco Bilbao Vizcaya Argentaria SA	Banking	695,327,810	1.49
Amadeus IT Holding SA	Electronics and Software	298,770,028	1.54
Bankia SA	Banking	296,444,001	2.21
Ferrovial SA	Construction	283,318,019	1.71
Repsol SA	Oil	190,682,080	1.24

Grifols SA	Healthcare	159,476,141	1.62

Source: Authors' elaboration from Norges Bank Investment Management (2015).

Table 20.4 Top Ten Largest Equity Stakes of the Government Pension Fund Global by Voting Rights in Spain

Company	**Sub-Industry**	**Value (US$)**	**% Votes**
Papeles y Cartones de Europa	Paper	24,008,168	4.54
Iberpapel Gestión	Paper	9,051,174	4.29
Tubacex	Minerals, metals	9,557,255	3.78
Miquel y Costas & Miquel	Paper	16,281,352	3.44
Gamesa Corp Tecnológica	Capital Goods	143,122,264	2.98
Iberdrola	Utilities	1,338,267,389	2.97
Distribuidora Internacional de Alimentación SA	Consumer services	109,340,034	2.97
Azkoyen	Capital Goods	3,416,962	2.77
Applus Services SA	Consumer services	31,740,541	2.69
Viscofan	Chemicals	70,280,316	2.50

Source: Authors' elaboration from Norges Bank Investment Manager (2015).

(p. 530) Also, in parallel to this particular responsible investment style that gives preference to companies with better social and sustainability standards, the fund actively votes in the AGMs of Spanish listed companies. For example, in 2014, GPFG voted in 70 Spanish listed companies. If we look at the top ten holdings, they tended to agree on almost every proposition made by the board to be discussed at the AGM. The only outlier was Ferrovial, a transport and infrastructure company, where GPFG opposed six board proposals regarding general meetings regulations, showing a level of disagreement close to 25% (see Table 20.5). Interestingly, however, when we look at the bottom ten holdings, the disagreement increases. For example, in the case of Codere, a gambling company, the GPFG voted against the re-election of four directors, including the Chairman and CEO. A similar level of disagreement was found in the case of Azkoyen, a vending business, where the fund opposed several propositions on the regulation of the AGMs and board of directors.

This discrepancy in voting between top and bottom companies brings up an important issue thus far unexplored. GPFG agrees more with management in companies in which they own larger stakes. On average, it tends to agree on 97% of all management proposals made during the AGMs in the largest ten holdings. This average goes down to 91% in the smallest holdings of GPFG in Spain. This puzzle adds to the unresolved theoretical connection between governance and performance. If GPFG is looking primarily for their portfolio returns, it would focus on the most well-performing companies to achieve its purpose. Are well-performing companies better governed than their poorly performing peers? Or do well-governed companies obtain higher returns than poorly managed companies?

From an empirical point of view, the conundrum is not easy to resolve: Should we consider that the fund improves the governance of the companies in which they invest? Or simply that they self-select into companies that are better governed and then deploy more capital into them? The answer falls beyond the scope of this chapter. We uncover that they tend to agree more with the companies in which they invest more, and tend to disagree more with the companies where they invest less. No causal relationship can be established, and is an open question to be further explored by governance scholars.

The goal of GPFG to influence the governance of its portfolio companies stands clear: GPFG argues that the roles of the CEO and the chairman of the board should be separated, and so they vote against the re-election of directors holding both positions. In the US, GPFG supported five shareholder proposals for the separation of the roles of CEO and chairman at five banks. They consistently followed the same strategy in Spain; that is, voting against the re-election of the CEO and chairman of Iberdrola and Barón de Ley. Paradoxically, GPFG, based on this voting principle, was against the re-election of Iberdrola's Sánchez-Galán, who was selected by "Institutional Investor" as the best European CEO in 2015.

Lastly, it is worth noting that none of GPFG's votes against the re-election or appointment of directors had a real impact. All the re-elections proposed by the management, in which GPFG voted against, received sufficient support, and the proposals were ultimately approved. Hence, it is important to explore why GPFG does not have a greater (p. 531) capacity to influence other stakeholders. More generally, the question of GPFG's ability to persuade both management and other institutional shareholders to follow their recommendations for the long term remains unresolved. One explanation is that active ownership is not solely reduced to voting and proposals at AGMs. GPFG engages directly with companies' boards and senior management through investor meetings or (p. 532) public events. Also, in private conversations GPFG encourages portfolio companies to fulfill their governance expectations, particularly in companies where GPFG owns large holdings, or in companies which operate in high-risk sectors (in terms of human rights, environmental issues, etc.). All these shareholder engagement tactics remain invisible and oftentimes the proposals in AGMs—that can be codified—are, in fact, the last resort option only after having had multiple private conversations with the company.

Table 20.5 Government Pension Fund Global Decisions during Annual General Meetings in Spanish Companies

Company	GPFG&Board Agreement (%)	# Proposals	GPFG voted against director reelection/ appointment	Was/were the director/s finally appointed?
Top 10 Holdings				
Santander	100%	32		
Telefónica	100%	13		
Iberdrola	96%	26	YES	YES
BBVA	100%	22		
Inditex	100%	18		
Ferrovial	76%	25		
Repsol	100%	23		
Banco de Sabadell	100%	23		
Amadeus IT	100%	23		

Gas Natural	97%	31	YES	YES
Bottom 10 Holdings				
Codere SA/Spain	71%	14	YES	YES
Ercros SA	93%	15		
Prim SA	93%	28		
Natraceutical SA	100%	7		
Telecomunicaciones y Energia	100%	19		
Realia Business SA	86%	21	YES	YES
Baron de Ley	94%	16	YES	YES
Fluidra SA	100%	32		
Azkoyen SA	71%	21		
Vocento SA	100%	10		

Source: Authors’ elaboration with data from Norges Bank Investment Management (2015) and companies’ press releases.

GPFG is one of the most influential shareholders in Spain. It is encouraging companies to improve their corporate governance standards by actively voting in AGMs. Also, as a responsible investor with investments in diversified global listed equities, GPFG tries to influence others to invest in sustainable companies. GPFG can help Spanish multinationals to avoid the so-called “crony capitalism”, as it acts as a corporate governance watchdog.

The Case of Kuwait and the Search for In-House Capabilities

Established in 1953, Kuwait Investment Authority (KIA) is one of the oldest SWFs. A reputed investor with an in-house investment team, KIA’s mission is to achieve a long-term investment return. As such, KIA is classified among the “financial SWFs” in the y-axis of our organizing matrix (Figure 20.1). Also, given the renewed interest of KIA in infrastructure (typically a private market), we categorize KIA in Quadrant 2. Thus, we analyze how a new unit, established by KIA to invest in infrastructure, is acquiring assets in Spain and how the organizational change may foster and improve investment returns by enhancing in-house capabilities.

Kuwait has returned to Spain. More than 25 years ago, Kuwait Investment Office (KIO) (the KIA’s old London-based subsidiary) faced an important drawback to its operations in Spain. In the late 1980s, after several financial scandals and the largest bankruptcy case up to that time in the Spanish economy, KIO abandoned the investments and operations in Spain, leaving behind two iconic towers in the north of Madrid (still today known unofficially as the KIO towers).

Many things have changed over the last 25 years in both the Spanish and Kuwait economies. Most notably, on one hand, KIA’s enhanced professionalization has allowed Kuwait to invest back in Spain and, on the other hand, Spain is equipped with a better and stronger regulation which helps to attract foreign investors such as KIA to the infrastructure sector, where Spain has become a global leader. Toward KIA’s professionalization is Wren House Infrastructure (WHI). This is KIA’s wholly-owned infrastructure arm, established in 2013. WHI is led by an experienced Kuwaiti national, formerly vice-president at Bank of America Merrill Lynch in London. KIA’s professionalization has come about using two channels: organizational change and workforce specialization. By establishing WHI, KIA made an organizational change which allows it to concentrate its interests in infrastructure in a specialized unit. This change helps KIA to better learn how to invest and co-invest in this complex and challenging asset class. Consequently, WHI is able to attract global specialized talent and to establish training-specific programs to improve in-house capabilities.

(p. 533) As a result of these changes, KIA is now participating in some of the most important infrastructure deals globally, either investing alone or as co-investor. Along with the Ontario Teachers’ Pension Plan—the Canadian active pension fund—WHI is jointly bidding for a series of infrastructure projects, including power deals in Australia, oil storage in the Netherlands, and the London City Airport in the UK. The agreement of WHI to jointly bid with the Ontario's pension fund, a reputed partner internationally, explains KIA's willingness to engage with the best and most competitive international players, learn from them, and have access to state-of-the-art global transactions.

This international experience has helped WHI to enter into Spanish markets. There are two illustrative examples of WHI's investments in Spain's infrastructure sector. First, WHI partnered with Macquarie, the largest Australian infrastructure player, to bid for E.ON, the German electric utility company. In December 2014, the partnership acquired all assets of E.ON in Spain and Portugal. Globally, it was the third largest infrastructure transaction with SWFs' participation in 2014. WHI invested US$1 billion in the transaction. WHI, jointly with Macquarie, defeated the bid led by Morgan Stanley and the Spanish energy company Gas Natural, the largest distributor of natural gas in Latin America.

Second, WHI acquired 25% of Global Power Generation, a fully-owned Gas Natural subsidiary dedicated to the global electricity generation business. It paid US$550 million in a solo investment to push the global expansion of the company, adding five Gigawatts in generation capacity in Latin America and Asia. As explained earlier, this transaction strongly resembles the strategy followed by Asian and Gulf SWFs in Spain: to bet in Spanish multinationals with potential to harvest returns from Latin America.

These two investment examples of WHI in Spain reflect well a new trend within the SWF industry in aiming to bring global talent to SWF workforces. KIA needs more experienced managers to deploy capital efficiently in the complex universe of global infrastructure investments. KIA, through WHI, tries to reinforce its in-house capabilities and thus moves from our Quadrant 1 to Quadrant 2 in Figure 20.1).

The KIA example illustrates well this pattern of human capital development. As studied by Bachher, Dixon, and Monk (2016), there are new "frontiers of finance" either in Kuala Lumpur, Dubai, Beijing, or Kuwait City, as in this case. In all these locations, SWFs have popped up, competing with established financial hubs like New York, London or Tokyo. In recent years, the financial crisis has forced institutional investors to drop external managers and be creative, which included the establishment of in-house investment teams. Consequently, SWFs have improved human resource strategies, designed competitive compensation schemes and allowed for location flexibility. It is not unusual for SWFs to scout for investment managers in recent years, and KIA is not an exception.

So far, SWFs have been able to attract young investment managers due to the fact that their wage gap between the private and public sectors is smaller at early career stages and SWFs are likely to offer greater experience opportunities (Bachher, Dixon, and Monk 2016). SWFs have also fared well in their efforts to attract mature employees that want a change from long-life stressful careers developed in London or New York. Yet, high and

(p. 534) rocketing salaries of the median career investment managers have remained out of the scope of SWFs. Thus, location and salaries are the main difficulties faced by SWFs when attracting global talent (Bachher, Dixon, and Monk 2016).

One way to overcome this hurdle has been the establishment of foreign offices (Al-Kharusi, Dixon, and Monk 2014), so that early and mid-career investment managers can work remotely from international financial hubs. Apart from hiring talent, the reasons for setting new international offices reflect the interest of SWFs to attract professionals with expertise in specific niche markets, typically start-ups, private equity, and real estate. Moreover, international offices allow for better monitoring of the partnerships SWFs establish with local investment companies (Aguilera, Capapé, and Santiso 2016). In the case of KIA, in 1965 it established the first ever SWF's overseas office in London. It allowed KIA to garner a reputation as a responsible and prudent long-term investor.

However, we observe different approaches in human resources looking at the headcount of SWFs. Table 20.6 shows the most and least labor-intensive SWFs. We have divided the total assets under management of each fund by the number of employees. The average employee manages US$970 million, with this figure ranging from a minimum of US$70 million per Mubadala's investment professionals to the US$3.6 billion managed per employee in the Investment Corporation of Dubai. What is not surprising is that the table is topped by the most active SWFs—those who engage in daily activities of their portfolio companies like Mubadala, Khazanah, and IPIC. The reason why Temasek and GIC—both from Singapore— also belong to the most labor-intensive SWFs is that they are making a strong bet on venture capital and lead the group of SWFs that can be classified as sovereign venture funds (Santiso 2015). Investing in venture capital requires specialized teams, new operational units and developing new investment capabilities. It implies that both Temasek and GIC improved in-house capabilities by hiring and training specialized talent as they entered into new asset classes, as was the case with KIA when it decided to invest in infrastructure. Temasek, for its part, is also a good example of a "sovereign holding fund" because it owns relevant stakes in national government-linked companies, which consume a large amount of resources to effectively monitor them.

On the contrary, we find among the least labor-intensive SWFs those more passive investors such as the GPFG (Kotter and Lel 2011). Kuwait, Qatar, and the CIC are also classified as low labor-intensive and are close to the bottom but for different reasons. In the case of GPFG, headcount will increase as their investment strategies become more complicated (real estate, direct investments). For WHI, we foresee a rise in the headcount as the frequency and geographic scope of deals increase.

In fact, labor-intensive funds may suggest more active investment roles. Among them we find SWFs with a hands-on approach (Mubadala, IPIC) and those who pick smaller stakes, thus actively monitoring third-party investment agreements (Khazanah, ADIA) or playing as venture capitalists (Temasek, GIC), respectively. The less labor-intensive funds follow passive roles in two directions: either they invest in fewer companies in which they own large stakes (QIA, KIA), or they invest passively in multiple companies taking small stakes (GPFG). (p. 535)

Table 20.6 Ranking of Sovereign Wealth Funds by Labor Intensity

Sovereign Wealth Fund	#Employees	AuM ($bn)	AuM per employee ($bn)	Country	Ranking (AuM)
Mubadala Development Company	900	66	0.07	UAE	19
Khazanah Nasional	465	42	0.09	Malaysia	25
GIC	1,300	415	0.32	Singapore	8
International Petroleum Investment Company	200	66	0.33	UAE	18
Temasek Holdings	530	196	0.37	Singapore	11
Korea Investment Corporation	195	85	0.43	South Korea	15

Abu Dhabi Investment Authority	1,650	773	0.47	UAE	2
Hong Kong Monetary Authority	841*	406	0.48	Hong Kong	7
Abu Dhabi Investment Council	180	90	0.50	UAE	13
Samruk-Kazyna	100	78	0.78	Kazakhstan	16
Future Fund	98	87	0.89	Australia	14
SAMA—Foreign Holdings	620*	757	1.22	Saudi Arabia	3
China Investment Corporation	588	747	1.27	China	4
Qatar Investment Authority	200	304	1.52	Qatar	9

Government Pension Fund Global	518	850	1.64	Norway	1
Kuwait Investment Authority	250	548	2.19	Kuwait	5
Investment Corporation of Dubai	50	183	3.66	UAE	12
	8,685	5,692			

Source: Authors’ elaboration from SWFs’ websites and official sources.

(*) These SWFs are part of the central bank structures; thus, the official figure for the SWF workforce is less accurate.

In conclusion, KIA is a sophisticated investor with professional in-house investment management teams. Recently it has established a new investment unit, WHI, which specializes in infrastructure. This organizational innovation has allowed KIA to attract talent and to increase in-house capabilities and brings KIA back to Spain with two major (p. 536) acquisitions. Undoubtedly, other Spanish companies would benefit from these sophisticated investors. In addition, the strong ties that the Spanish infrastructure global leaders have with Latin America will attract more sophisticated SWFs, and the pool of available capital for the expansion of Spanish companies will increase accordingly.

Qatar in Spain: A Comprehensive Strategy

Qatar Investment Authority is probably the world's best-known SWF. QIA is regularly making headlines for its sound acquisitions in trophy assets in London, New York, and Singapore.

The strong links between the government and QIA goals help us to define QIA as a strategic investor according to our typology (y-axis in Figure 20.1). In fact, QIA defines itself as an "important building block of the Qatar National Vision 2030" and it embraces into global investments with the clear mission of "supporting the development of a competitive Qatari economy, facilitating economic diversification and developing local talent" (Qatar Investment Authority 2016). If we consider the x-axis in Figure 20.1 (ownership type), QIA invests in both private and listed equities. However, we consider that legitimacy and recognition are better understood through public investments rather than in private markets. Thus, we classify QIA in Quadrant 3 as a strategic investor in listed equities.

QIA, through its investment arm Qatar Holding, executes an ambitious strategy to position the Gulf's little and resource-rich state onto the world map (Clark, Dixon, and Monk 2013). To secure longer horizon state-goals, Qatar investments in Spain (conducted primarily through QIA or QIA's subsidiaries) capture well a strategic governance dimension pursued by QIA and described in our organizing framework (Figure 20.1): legitimacy. Indeed, QIA's vision is to "be recognized as a world-class investment institution, and to become the preferred partner of choice for investors, financiers and other stakeholders."

QIA captures the prototypical legitimacy strategies as it adheres to a strong recognition mission and vision, in search of legitimacy through financial sound investments (largely in Europe). Investments made in the iconic W Hotel in Barcelona or London department store Harrods might be seen under the "trophy asset" lens.

QIA is experiencing a period of strong governance transformations. It has changed its CEO twice in the last two years. Also, as a commodity-based SWF, QIA is facing the pressure of lower commodity prices (both oil and natural gas), as well as diminished demand projections. We can observe a more global investment scope which departs from the strategy executed under the previous CEO when QIA made a strong European bet. QIA has hired senior bankers with expertise in both the US and Asia (Kerr 2015) and is already investing heavily in these regions. In September 2015, confirming this new trend, QIA opened an international office in New York City.

QIA has been described as trophy asset hunter. From luxury hotels in London to offices in Singapore, start-ups in California or in Bangalore, QIA deploys an active strategy to position and legitimatize the country internationally. In 2014, QIA was the world's fourth most active SWF (ESADE Business School 2014). In terms of the average (p. 537) value of deals, it ranked third only after the Chinese National Social Security Fund and UAE Mubadala. QIA has invested an average US$850 million per deal (see Table 20.7).

QIA's investments in Spain reflect well one of the main objectives pursued by the government of Qatar so far: international recognition (legitimacy), and this can be seen through numerous examples (Al-Hassan, Papaioannou, Skancke, and Sung 2013; Balding 2012). QIA tracks this goal using two interrelated strategies: real estate investments (with special focus on hotels and iconic office buildings) and the spread of the Qatar Airways brand in Spain through the FC Barcelona sponsorship. This strategic move connecting football and tourism brings the opportunity to accomplish its main goal: recognition. QIA investments in Spain reflect another important fact: the importance of long term relationships to develop trust, the main ingredient and catalyzer for global mergers and acquisitions (M&A) deals (Jiang, Chua, Kotabe, and Murray 2011). QIA's investments in football are not made solely to acquire brand recognition (international legitimacy), they also establish close relationships with local and regional leaders that would facilitate the entry into other markets (oftentimes regulated). To create trustworthy relationships with local partners, helps to identify new investment opportunities and to develop smarter and more efficient business networks.

Since 2011, Barcelona has founded strong ties with Qatar. Beyond the hotel industry, the link between Qatar and the Mediterranean city was football. Indeed, FC Barcelona, under a very difficult financial situation, agreed to shirt advertising for the first time in its hundred-year history. It signed a five-year agreement with the Qatar Foundation: €30 million per season for the cash-constrained football club. Qatar, which aims to host the 2022 World Cup in the wake of the recent scandal surrounding FIFA, chose FC Barcelona as one of their most important crests for landing in Europe. (p. 538) FC Barcelona is one of the continent's leading clubs, and its celebrated coach, Josep Guardiola, who had played two seasons in Qatar, became the ambassador for Qatar in its candidacy for the 2022 World Cup.

Table 20.7 Most Aggressive Deal Hunters by Transaction Average Value

Sovereign Wealth Fund	**Country**	**# Deals**	**Average Value***
National Social Security Fund	China	1	2,100
Mubadala Development Company	UAE	8	1,718
Qatar Investment Authority	*Qatar*	*11*	*848*
GIC	Singapore	23	621
China Investment Corporation	China	7	369

Kuwait Investment Authority	Kuwait	9	359
State General Reserve Fund	Oman	5	265
Abu Dhabi Investment Authority	UAE	9	223
Temasek Holdings	Singapore	44	170
Khazanah Nasional	Malaysia	3	115
National Pension Reserve Fund	Ireland	1	50
Source: Authors’ elaboration from Fletcher SWF Transaction Database (2015).			

(*) US$ millions.

In 2013, Qatar decided to exploit the strategic factor that Spain’s tourism market represents for the airline and replaced the Qatar Foundation logo with that of Qatar Airways, which is now displayed on the front of the shirt. This decision was made on the same financial conditions. Qatar Airways is a state-owned entity fully controlled by QIA.

The coordinated investment capacity displayed by QIA extends to other public and private Qatari groups. QIA’s investments in Spain shows the importance of a comprehensive strategy that includes various public entities. This kind of strategy, which uses the diverse state investment resources in a coordinated manner, is deeply rooted in the basis of the new forms of state capitalism (Aguilera, Capapé, and Santiso 2016).

In parallel to football, airline-related investments and sponsorships, Qatar also invested €78.5 million in acquiring Barcelona’s Hotel Renaissance through another fund linked to the Qatari armed forces. In 2012, Qatari Diar, the real estate arm of QIA, acquired Port Tarraco, Tarragona’s luxury yacht marina, for a reported price of €64 million. QIA expanded its Spanish reach beyond Barcelona when QIA’s hotel investment arm—Katara Hospitality—acquired a European hotel portfolio to the InterContinental Hotel Group (IHG) in five cities, including Madrid. Katara would pay up to €60 million for the IHG Madrid hotel to the Qatari group Ghanim Bin Saad & Sons Group Holdings (GSSG).

However, the best known transaction in the Spanish hotel sector happened in 2012, one year after Qatar signed its agreement with FC Barcelona. Qatar Holding acquired Barcelona’s Hotel W from a group of local shareholders for €200 million. The purchase of this flagship hotel in Barcelona, one of the most visited cities in the world, is well aligned with the “international recognition” strategy pursued by QIA.

Qatar, using different state-owned vehicles, is betting in the Barcelona hotel sector, as well as improving Barcelona’s flight connections with the Middle East and into Asia. Barcelona is a priority destination for global tourists, with special attention paid to increasing middle-class tourists from Asia (mainly China) who are now among the tourists that spend the most money in Spain. This all serves Qatar's recognition goal. Similarly, Qatar Airways now advertises its daily connections to Doha, from Barcelona and Madrid, in order to increase flight traffic to the region and position Qatar as a new aerospace hub that connects Europe with Asia, in clear competition with neighbor UAE's Emirates (Dubai) and Etihad (Abu Dhabi). New customers and increased connections for commercial, business, and leisure activities between Europe and Asia position the Middle East as a strategic hub location in the aerospace industry. In a fierce competition for travelers, these three state-owned airlines deploy close to US$300 million yearly in the European football sector. All these sponsorship expenses support the goal of establishing a strong aerospace industry in the region, it helps to alleviate the dependency on oil-related revenue streams, thus diversifying the local economy.

To conclude, Qatar displays in Spain a comprehensive strategy with a main goal: legitimacy by international recognition. QIA and QIA subsidiaries leverage on previous (p. 539) deals made by other Qatari public and private investment companies, showing how a coordinated action in Spain serves its legitimacy goals. The most emblematical assets acquired by QIA in Spain portray a different image of the small country (Clark, Dixon, and Monk 2013). By investing in iconic buildings and establishing strong sponsorships, Qatar builds trust with local partners and increases its reputation internationally, ultimately allowing it to expand its legitimacy both at home and abroad.

Long-Term Learning: Oman-Spain Co-Investment Sovereign Wealth Fund

In April 2015, the Oman's State General Reserve Fund (SGRF) and a Spanish public-private company agreed to establish the first co-investment SWF in Spain. The new fund, still under development, will finance the international expansion of Spanish small and medium enterprises (SMEs).

SGRF is situated in Quadrant 4 in Figure 20.1 of our organizing framework. According to the y-axis, SGRF is classified as a strategic investor due to the close linkages between the fund's goals and those of the Sultanate of Oman. Specifically, in the mission statement, SGRF notes the fund will "invest strategically with a long-term time horizon" and most importantly SGRF will work "to attract global investments and expertise to Oman through is international network, and act as a catalyst in investing locally" (State General Reserve Fund 2014). The latter is in line with the establishment of the co-investment fund while the former describes its strategic mission. Looking at the x-axis, (ownership type), we consider SGRF as a "private market" owner given that the fund focuses on small and medium enterprises whose equities are generally not listed in Spain. Thus, SGRF and the resulting co-investment fund will invest strategically to serve the interests of both the Sultanate of Oman and the Spanish government.

This newly established SWF is part of a broader trend of European co-investment funds. We will now review the five existing cases of co-investment funds and then focus on the case between Spain and Oman.

The European Co-Investment Funds

There is a strong trend among European governments to establish public vehicles with the purpose of co-investing with foreign SWFs. These new "co-investment SWFs" seek two goals. On the one hand, domestic public investors gain access to the large capital pool of Middle East or Chinese SWFs and channel it to domestic companies that are willing to go abroad and enter into new markets. On the other hand, large funds get access to local authorities of target countries, engage in better and stable relationships with European economies and, most importantly, open new channels for knowledge sharing. So far, this model has been developed in Russia, France, Italy, Ireland, and Belgium and is now under development in Spain. These European countries set up small public investment units trying to attract foreign SWFs from the Middle East or China. Both domestic and foreign SWFs are aligned in terms of long-term investment horizon (p. 540) and risk-return expectations. Yet, there are slight differences in the scope and goals of these European co-investment SWFs.

Russia Direct Investment Fund (RDIF) is probably the best known example of this new class of co-investment SWF. RDIF is a US$10 billion state-owned fund established in 2011, which has catalyzed US$25 billion in investments in the Russian economy from private equity funds, SWFs, and strategic partners.

Partners and co-investors who have already committed or invested with RDIF include the China Investment Corporation, the Korea Investment Corporation, Mubadala, or Kuwait Investment Authority. The list of co-investors has grown to 21 large, private or public qualified institutions (US$1 billion market capitalization or a minimum of US$1 billion of assets under management is required), as well as other SWFs and leading financial services companies from India, Egypt, and Turkey.

The main criticism that some of these vehicles receive is that "they don't deliver." Despite the media attention and coverage during the day of signing the co-investment agreements, operations never end up being implemented. In contrast, other co-investment funds adopt ambitious strategies and deliver, such as the Russia-China Investment Fund, which already has stakes in the RFP Group (Russia's second largest wood processing company), Magnit (Russia's largest retailer), and Moscow Exchange (the largest exchange in Russia, the CIS, and Eastern Europe).[3]

In the case of France, the CDC International Capital (CDCIC), fully-owned by the Caisse des Dépôts Group—the largest public investor in France, was established in 2014 with the goal of arranging new investment agreements with foreign SWFs and other institutional investors to support the internationalization of French companies. CDCIC has inherited, from a pre-existing public vehicle, three agreements with Qatar Holding, Mubadala, and the RDIF.[4]

Italy established by law the Fondo Strategico Italiano (FSI) in 2011, and is looking to attract SWFs to foster Italian companies' internationalization. In March 2013, FSI established a 50-50 joint venture with Qatar Holding, named IQ Made in Italy Investment Company (IQMIIC) to support Italian companies in key sectors such as furniture and design, tourism, food, or brands (luxury goods). Surprisingly, this joint-venture has been absorbed as part of the assets under management of the FSI Investimenti, an investment company partially owned by Kuwait Investment Authority (23%), worth US$2.2 billion, and established in July 2014. This Italian situation represents a unique case in the sphere of Co-Investment SWFs. With the help of Kuwait, Italy manages a bulk of assets that includes the Qatari-Italian joint-venture.

Other cases include the recent agreement between the CIC and the "renewed" Ireland's SWF (Ireland Strategic Investment Fund) to set up a fund focused on fast-growing Irish start-up technology companies that are willing to expand into China. On the other hand, in 2011, Belgium and China signed some of the oldest (and most unheard-of) investment agreements. The CIC and the public Belgian Holdings SFPI (p. 541) set up a fund, investing in European middle-capitalization companies. The joint fund is focused on attracting Chinese investors to Europe, particularly to Belgium.[5]

A New Co-Investment Fund in Europe: The Case of Spain

Spain, aware of the experience of other European countries, used COFIDES—a public-private vehicle supporting Spanish SMEs to go abroad—to sign an agreement with oil-rich Oman's State General Reserve Fund and to set up a 50-50 fund with the purpose of internationalizating Spanish companies. Each part will contribute €100m to create an initial joint fund of €200 million. The fund will focus on investments in building materials, food, infrastructure, energy, and tourism. This will allow Spanish companies to benefit from the new fund through their expansion to the Gulf Cooperation Council (GCC) countries, and more generally East Africa or South and Southeast Asia.

The joint fund, which involves the creation of an asset management company, will be available to subsidiaries of Spanish companies with plans for international projection and an intention to set up in Oman.

This strategy would help Spanish companies to explore new markets. This is of particular interest for Spain because international destination markets have been heavily biased toward Latin America and European Union. In some other markets, such as China, Middle East or South-East Asia, the state plays a key role in the economic activity. To have a business partner that is state-owned, such as the SGRF, facilitates the access to markets and to relevant business partners. Specifically, SGRF has the mission to act as the catalyst to increase investments in Oman. Thus, Spanish companies would benefit from the joint fund if they decide to expand to Oman or the region.

Oman, for its part, will get access to knowledge transfers from Spanish global construction and infrastructure leaders; this is especially important for Oman given the investment gap the country is facing to modernize transportations (road, rail, or air) and build basic infrastructure. The agreement will help Oman to position itself as a platform connecting Europe, Asia, and East Africa, as well as to increase its economic competitiveness with neighboring countries.

The same logic applies to the tourism sector given that Spain has many mature touristic companies. Spain received more than 60 million tourists in 2015 and it remains the third most visited country after France and the US. Spanish hotels, tour operators, and reserve systems, may bring new approaches to Oman's economy, in need of innovation. Oman holds an important touristic potential, given its benign weather compared to that of its neighbors in the United Arab Emirates or Qatar. Other sectors of interest are agri-business (of key importance to a country with better arable conditions in the region) and engineering companies that would help the Sultanate to improve energy efficiency.

All these learning goals position Oman's SGRF and the newly established joint fund in the fourth quadrant in Figure 20.1, where SWFs pursue strategic international alliances, typically through joint-ventures. These relationships allow shared decision-making (p. 542) processes and access to expertise, which will ultimately result in high learning opportunities from an investment, geographic, and industrial point of view.

This agreement with Oman's SGRF is the first in a series that Spain could continue with Qatar. The Secretary of Trade has already initiated conversations with QIA to establish a €500 million fund with similar objectives: to foster the internationalization of Spanish SMEs.

Given the track record of France or Italy, other potential partners include Kuwait or RDIF. The CIC from China, or the GIC and Temasek, from Singapore, would add new value to the relationships. These funds have a strong presence in the technology sectors; therefore, establishing co-investment funds with them would inject new capital in the nascent and growing Spanish start-up ecosystem. The expertise of these funds would help the Spanish public investors to improve their processes and learn how to invest more efficiently in technology and innovation.

The key learning experience accumulated over the last ten years is that the basis for successful SWFs is to establish investment units with carefully designed goals and governance structures (Das, Lu, Mulder, and Sy 2009). Spain needs to consider the benefits of establishing a professional and independent organization to manage these new and prospective agreements rather than adding new functions to existing structures (Bernstein, Lerner, and Schoar 2013). There are two major advantages. First, setting up a single organization that manages various agreements would facilitate knowledge sharing and learning. Second, establishing a certain independent structure would increase accountability, help to set more precise return schemes/benchmarks, and be the subject of clearer scrutiny and supervision. However, it also comes with disadvantages, which include the costs of capacity building and the resources deployed in setting up these structures. Once the costs are considered, to ensure professional and accountable asset management there would be a need for establishing a basic autonomous structure (i.e. an investment unit reporting to the Ministry of Economy) that operates independently once transparent rules and goals are agreed.

Conclusion and Future Research

Spain has gained financial and international experience by dealing with SWFs. Spanish listed companies, as well as real estate developers and a few privately-held companies, have negotiated with SWFs from all over the globe in recent times. In 2011, Spain was the first destination of SWFs' foreign direct investments in Europe (Santiso 2012). Since then, deal flow has continued and interactions with SWFs have increased. The dense relationship with SWFs has facilitated the establishment of the first Spanish co-investment SWF, following a model already used by Italy and France.

This variety of SWFs allows the identification of four different governance strategies (described in Figure 20.1) used by SWFs when investing in Spain. In this chapter (p. 543) we have considered how SWFs with minority stakes could play an important role in Spain as corporate governance watchdogs. Then we focused on the intense activity displayed by GPFG through voting in AGMs. Finally, we discussed the beneficial impact of these strategies on countries like Spain, which sometimes has been labeled as a "capitalism of friends" with limited foreign active shareholders and low corporate governance standards. In Spain, the race to improve corporate governance standards is under development, and funds like GPFG will have an important role to ensure that the codes of governance and the best practices spread to more companies. We label this type of SWFs as responsible investors (included in Quadrant 1 of Figure 20.1). Their interest to safeguard funds' assets lead them to act as responsible investors and engage with companies' boards and management.

The chapter also provides evidence of the role played by in-house capabilities to improve the quality of deal scouting, get access to direct investing, and enhance partnerships. Kuwait, following a strategy to attract talent, has returned to Spain, a country it abandoned under corruption scandals 25 years ago. Now, both Spain's regulatory framework and KIA's governance have improved substantially, allowing KIA to participate in some of the largest deals executed by SWFs. Enhanced in-house investment capabilities are representative of SWFs in Quadrant 2 of Figure 20.1 with a need for larger and more prepared human capital as they navigate into complex private markets such as infrastructure or venture capital.

QIA is the best example of a strategic fund looking for legitimacy (those included in Quadrant 3 of Figure 20.1). The Gulf country has landed in Spain with a very clear objective: leverage on its financial firepower to re-invent the image of the Arab country. Investments and partnerships with Spanish companies in sectors such as football, airlines, and hotels allow QIA to build trust with local players and to deploy a national comprehensive strategy that aims to diversify its national economy, as well as to position the country as a bridge between Europe and Asia.

Spain has now set up its own co-investment fund along with Oman due to the knowledge acquired over the last decade dealing with SWFs. The joint fund plans to invest in Spanish companies going abroad. Both Oman and Spain focus on learning (Quadrant 4 of Figure 20.1) and impulse the establishment of an international joint-venture to achieve strategic national goals. The experience from this first fund in Spain may be repeated in association with other countries in the region, and beyond. Operations, governance—including accountability—and clear goals should be defined in order to ensure the appropriate use of this newly created vehicle. Again, strategic governance would influence the results of a new sovereign venture.

Future Research

Research on SWFs has been naturally biased toward the financial aspects, with a strong focus on the impact of SWFs' investments in portfolio companies' returns, both in the short and long term. However, we consider that research in fields such as economics, (p. 544) management, and international business remain quite unexplored. Therefore, we would like to propose four fruitful areas for future research beyond finance that require further attention.

Globally, policy makers are setting today's agenda based on a combination of two economic trends: low oil prices and low interest rates. This new normal brings the opportunity to improve our knowledge about SWFs in at least two areas: for economists to test the validity of SWFs as rainy-day funds, and for management scholars to understand change in SWFs to adapt to the new environment. Apart from this circumstance, we consider two other topics that remain unclear in the literature. On the one hand, the relationship between SWFs and co-investment partners now that SWFs are looking for more direct investments and, on the other hand, the exploration of the particular economic and institutional context of African SWFs.

First, from an economic point of view, low oil prices offer an environment that can test SWFs' capability as rainy-day funds. Due to these circumstances, a comparative study of the different reactions to oil prices by SWFs is pertinent. Analyzing how SWFs with different levels of governance complexity and investment mandates react to low oil prices would help to understand the usefulness of establishing SWFs. Research must be done on how SWFs cope with tough external shocks, maintain long-term trajectories over short-term needs, and retain independence levels from political pressure.

Second, the persistent low interest rates offer another stream of new research for management scholars. It remains to be understood how SWFs adapt through diversification beyond safe fixed income. Hence, private markets have grown in importance as an asset class for the majority of SWFs. Given the low interest rates, SWFs have invested in real estate, private equity or infrastructure, looking for the returns that safe fixed income is not providing. SWFs have acquired new resources to enter into riskier asset classes. They have either developed talent internally or hired from the outside. Future research should explore how governance of SWFs changes to adapt to this complex environment, what the interactions between new hired talent from abroad and incumbents look like, or the theoretical advances to explain the behavior of foreign talent in organizations ultimately governed by nationals.

Third, the world is witnessing the expansion of SWFs to new geographies. New offices opened up by the CIC in the US, GPFG in Japan, and Qatar in China suggest that interactions with local investment partners will grow in the near future. This co-investment pattern brings new questions to the table. How do SWFs negotiate on prices or quality of assets? Are there differences between SWFs or public pension funds when they look for specific deals? Moreover, we do not know much about the partners that

SWFs engage with to explore new asset classes or countries. Finally, if we assume trust is key to source and close deals in investment banking, how do SWFs build trust with other players in the industry? International business scholars could be interested in answering these questions.

Fourth, SWFs play a very different role in Africa to elsewhere. When scholars define SWFs as a means to preserve current wealth for the future generations, most of them are not thinking in Africa. In many resource-rich African economies, to have a future (p. 545) requires investments today. This tension between today's needs and intergenerational transfers is reflected in the different vehicles designed in Africa. Also, the fact that in many African countries mineral resources have led to a "natural curse," rather than an improvement in the economic conditions, places SWFs as a key governance tool to resist. A careful organizational design and governance definition, such as that implemented in the newly established Nigerian SWF, may yield long-term returns, economic diversification and inspiration for other governments to follow. To understand the African context and the specific nature of its SWFs are key issues still unresolved.

What is clear is that SWFs are here to stay and there is a lot more to understand about them.

Acknowledgement

We want to thank Henry Paikin for his excellent research assistance. All remaining errors are ours.

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Notes:

([1]) More details can be found in the press release made by Bankia and found at https://www.bankia.com/en/communication/in-the-news/press-releases/bankia-and-fcc-sell-globalvia-to-the-funds-uss-optrust-and-pggm-which-are-exercising-their-preferential-purchase-right.html.

([2]) The Fund is called the Government Pension Fund Global. Despite using the term "pension" in the name, it is not a public pension fund. The fund has no formal pension liabilities. The name reflects the goal of the fund: that of saving government resources to finance an expected increase in future public pension costs.

([3]) Full details of the RCIF's portfolio can be found at http://rcif.com/portfolio-companies.htm.

([4]) More information about CDCIC can be found at http://www.cdcicapital.fr/en/.

([5]) SFPI is described at http://www.sfpi-fpim.be/en/portfolio-its-own-behalf.

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