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**Headline: Once regular buyers, Asian SWFs put brakes on energy outlays**

# MARKET COMMENT

## Once Regular Buyers, Asian SWFs Put Brakes on Energy Outlays

Once regulars in the global M&A market for oil and gas assets, Asian sovereign wealth funds (SWFs) have mostly remained on the sidelines in the energy sector over the past year, with the lone exception of Singapore's Temasek Holdings. Their disappearance comes at a time when major oil companies and others are divesting billions in assets as part of an industry-wide capital efficiency drive, and their continued absence could remove an important pool of cash-rich buyers from an already flooded M&A market (EIF Aug.13'14).

Temasek appears to be bucking the trend hard. Even while keeping its share of energy investments steady at 6% for a third consecutive year, it has remained an active buyer and continues to push forward its latest venture, Pavilion Energy (EIF Aug.6'14). By contrast, the $653 billion China Investment Corp. (CIC), an aggressive energy investor from 2009 to early 2012, seems to have all but disappeared as a buyer. Its share of energy investments was 8.5% in 2013, cut nearly in half from 14% in 2011 (EIF Aug.10'11). Singapore's Government Investment Corp. (GIC), which did not disclose the value of its portfolio last year, and Korea Investment Corp. (KIC) with its more modest $72 billion value, were also largely absent from energy markets over the past year.

SWFs are not subject to the same regulatory disclosures as publicly listed companies and, in many cases, reveal as little as they can, making it difficult to track their investments. But based on information gleaned from their annual reports, regulatory filings of listed companies in which SWFs have invested, and official comments, there has been little interest in energy from CIC, GIC and KIC recently. Part of the reason may be that companies have accumulated enough energy assets in their portfolio to turn their investment focus to other sectors. Shanghai-based financial advisory firm Z-Ben Advisors Executive Director Michael McCormack describes CIC's investments as being rather cyclical and aimed at building strength in energy, commodities and infrastructure, "where predicted demand is motivating their investments."

"They seem to have mostly built out energy investments two years ago, mainly in companies in developed countries. In commodities, their investments were complete a few months ago and much more widespread, including emerging and developed countries. Agriculture is peaking or likely to peak soon with investments in New Zealand, Australia, and the west coasts of Canada and the US — the most likely suppliers to China." Indeed, in a rare column in the Financial Times two months ago, CIC Chief Executive Ding Xuedong stressed CIC's focus on agriculture. "We believe the agriculture sector offers stability, a way of hedging against inflation and a device for spreading risk," he stated.

McCormack believes that CIC might next turn to bigger investments in finished goods, in line with attempts by China's leadership to steer the country's domestic consumption. This is not to say that CIC will not make new investments in energy: "China will remain dependant on external supplies in energy, commodities, agriculture," he adds, and that could motivate more purchases. But for the time being, CIC may hold enough energy in its portfolio, especially as some assets have underperformed. The SWF was severely criticized by the National Audit earlier this year for mismanagement, dereliction of duty and poor due diligence. This could apply to Canada's Sunshine Oilsands, which has yet to start production, more than two years after CIC sank $150 million in the company as a cornerstone investor for its initial public offering in Hong Kong. Sunshine Oilsands shares have slumped since then amid broader cost concerns about Western Canadian oil sands projects (EIF Sep.25'13).

Singapore's GIC reorganized its portfolio in April 2013 in six asset classes and as a result does not disclose the share of its natural resources investments in its portfolio anymore. These amounted to 2% of its portfolio in 2011-2012 and 2012-2013. But the fund was noticeably absent from energy markets until earlier this month, when it joined Temasek and private equity funds in injecting $1.3 billion into US Gulf of Mexico explorer Venari Resources. The SWF also doubled its stake in China Suntien Green Energy Corp from 5.02% to 11.15% this year.

In a sign that it has not written off energy investments, GIC President for the Americas Anthony Lim told the Financial Times in May that Mexico's reform of its energy sector has made the fund keen to invest across the entire spectrum of that country's energy industry. GIC opened an office in Brazil in April to look at investments in Latin America.

In contrast to its Asian rivals, Temasek, with its $223 billion portfolio, continues to emphasize the importance of new energy outlays. "In line with our strategy, our top three sectors for investments during the year were financial services, life sciences and energy," the SWF said in its annual report, released last month. Temasek's latest investments range from buying shares in UK gas major BG to outlays in Nigeria's midstream gas sector.

But it is its Pavilion Energy venture which is likely to keep observers interested. The fund has already invested $2 billion in Pavilion — $1.25 billion to fund the acquisition of its 20% stake in Ophir's gas fields offshore Tanzania and the remaining to set up the company itself, *EI Finance* understands. The investment puts the SWF on the frontline of upstream investment and LNG trading — Pavilion has started trading spot LNG — and is considered a bold one. "It is one of the new big potential money-making businesses," a source close to the fund told EIF.

Pavilion, which is in the race to replace BG as Singapore's LNG aggregator, also fits with Temasek's focus on Asia and on developing Singapore brands, says Singapore Management University's associate professor of finance Annie Koh. With Temasek at the forefront of energy investments for Singapore, GIC is taking a back seat, Koh notes. Nevertheless, even for GIC, "energy is not going to run away. It may not be seen as a direct investment but it will have implications in investments that GIC is taking on," she added. ■