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STATE-OWNED PRIVATE EQUITY: AN EMERGING PHENOMENOM

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Chapter 1 – State-Owned Private Equity (SOPE) Funds: Definition, Key Features and Functioning

1.1 Sovereign Wealth Funds: definition and key features

1.1.1 Definition of SWFs

We can start by giving a direct and basic definition of Sovereign Wealth Funds (SWF): they are state owned investment funds which can include all kinds of financial assets such as stocks, bonds, property, precious metals or other financial instrument.[1]

A more complete definition of what a Sovereign Mutual Fund can be is given in a Deutsche Bank report where is stated: "Sovereign wealth funds – or state investment funds – are financial vehicles owned by the state which hold, manage or administer public funds and invest them in a wider range of assets of various kinds. Their funds are mainly derived from excess liquidity in the public sector stemming from government fiscal purposes or from official reserves at central banks".[2]

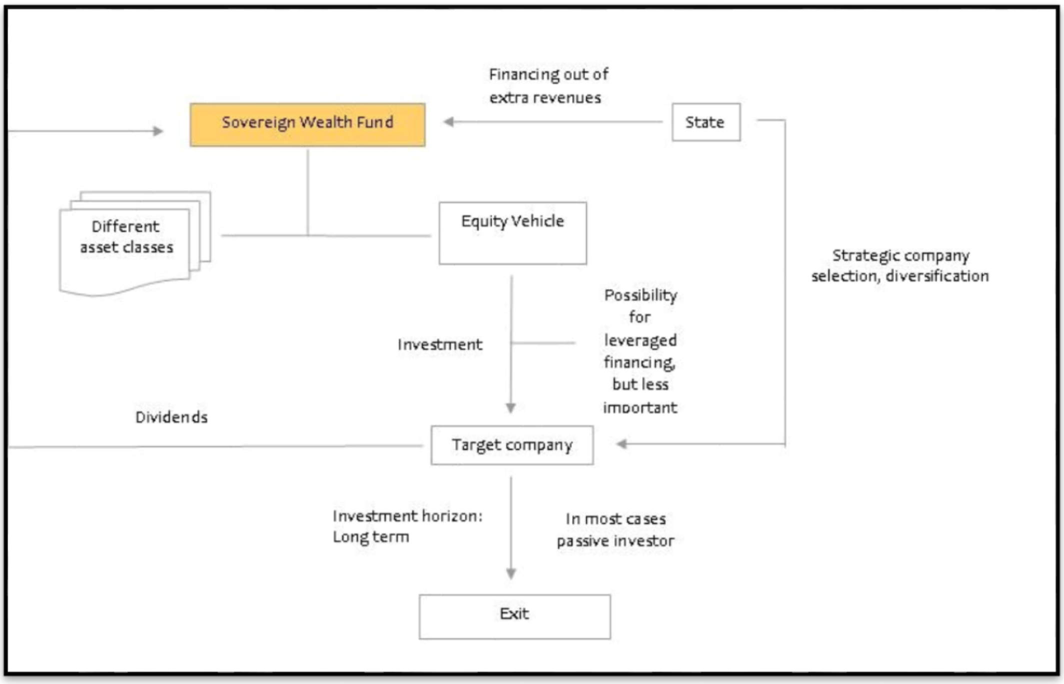
We start obtaining a central concept of what a Sovereign Wealth Fund is, and we will use the following definition to better portray this: "a Sovereign Wealth Fund is an investment fund, issued or possessed by a Government, a national monetary authority, or anyways a public agency. The name Sovereign Wealth Fund was introduced by Rozanov in 2005 to describe those particular government investment vehicles financed by a surplus of the national balance, derived not

[1] Private Equity Final Report 2009, pg. 15
[2] DeutchBank – 2007 pg. 2

only from the export of primary resources, but also from the actuation of particular strategies that aim to generate leftovers of current account or by a fiscal law, associated to containments of the public expenditure". [3]

Rozanov also underlines how they do not belong to the category of Sovereign funds neither the public pension funds, neither the reserves in currency managed by the Central Banks for support of the national currency.[4]

Figure 1: Shows how Sovereign Wealth Funds (SWF) work



[3] https://mail.google.com/mail/u/0/#inbox/1520399c20a9e760?projector=1 o Cfr. ROZANOV A. (2005), Who holds the wealth of nations?, in "Central Banking Journal", Volume XV, n 4, 2005, pp 52-57.
[4] Cfr ROZANOV A., "Who holds the wealth of nations?", 2005, cit, p 52

1.1.2 Key Features of SWFs

From the previous Rozanov definition of SWFs, 3 key characteristics of them are extrapolated:

- The governmental property of the funds: these funds are issued by the governments and operate under their supervision. However, Rozanov sustains that neither the monetary authorities that manage the reserves of currency for macroeconomic objectives, neither the public pension funds belong to the category of the SWFs.
- The funding modality of the SWFs: they are issued through the transfer by the State of part of the reserves in excess of currency, deriving either from the export of primary resources (commodity funds), or from the actuation of particular strategies aiming to obtain leftovers of current accounts (non-commodity funds), or from transfers of financial resources generated from the accomplishment of fiscal surplus.
- The aimed purposes: the SWFs can be issued to isolate public balances from the revenue's excessive volatility (stability funds), or to preserve the richness for the future generations (saving funds), or also to promote economic-social projects (development funds).[5]

The development of Sovereign Wealth Funds it's a recent phenomenon. If we look at figure 1 we can show that the majority of existing SWFs (67%) have been established after the year 2000:

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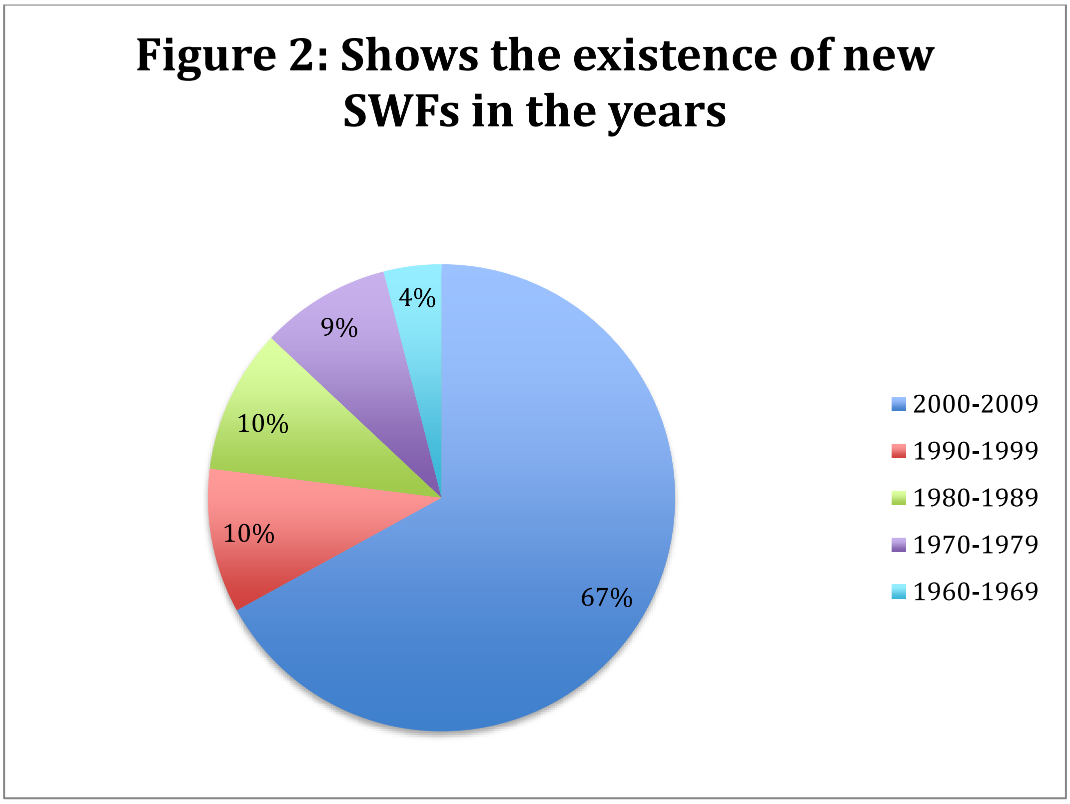
[5] http://www.univr.it/documenti/AllegatiOA/allegatooa_18881.pdf or ROZANOV A., Sovereign Wealth Funds: Defining Liabilities, Working Paper, State Street Global Advisors, 2007



The strong rise of the SWFs has brought to the attention of the international organizations and of the national States some problems related to the efficiency of these types of funds.

The criteria we use to classify the Sovereign Wealth Funds are based on the sources of the resources used to finance the investments and on the finality pursued through the same investments.[6]

The potential advantages of delegating national wealth management to a SWF can be summarised as follows:

- Diversification

Oil or other commodity exporting economies often run substantial concentration

[6] Consob – Quaderno sui Fondi Sovrani

risk owing to their dependence on the natural resource they sell on international markets. This risk is particularly salient with regard to the exhaustibility of natural resources as well as the danger of misallocation of capital if the sale of natural resources in turn leads to an appreciation of the real exchange rate and thereby diminishes the competitiveness of other sectors in the economy. The diversification of national wealth by investing internationally and in a greater range of assets can help reduce these concentration risks.

- Risk-return optimisation

  Governments may seek to optimise their risk-return profile on national wealth. Looking at conventional reserves management as undertaken by central banks, central-bank portfolios have earned around 1% real returns annually over the past 60 years. In contrast, the equivalent real return on a diversified portfolio of 60% stocks and 40% bonds would have been about 6%. To be sure, a diversification into stocks and bonds may be associated with significant risk premia, as the annualised standard deviations of returns in the above table illustrates. Assuming a longer investment horizon, however, relative risks change so that, for a 10-year holding period, the probability of a negative real return on a diversified pension-fund type portfolio actually lies noticeably below that of a conventional central bank reserves portfolio. This suggests that governments can realise substantial net benefits in the long run by redirecting excess revenues or reserves to dedicated fund management.

- Transparency

  Allocating assets to SWFs can help increase transparency and accountability in the government sector by increasing public scrutiny of public finances. Depending on the organisational form and on the reporting requirements which the fund is obliged to fulfil, managing national assets via a separate entity can, in theory, contribute to a less opaque management of national wealth.

- Intertemporal stabilisation

  SWFs – especially stabilisation funds – can help shield an economy against volatility in markets of critical value for an economy, such as oil or other commodities. In this case, the fund serves as a liquidity pool which is replenished at times of favourable commodity price conditions or reserve inflows, and which can be drawn upon in cases of low asset prices or shortage of reserves.

Until 5 years ago the SWFs adopted restricted investment policies and their wealth was mainly invested in U.S securities. From 2007, the tremendous increase in price of oil and of other primary resources has made possible for states rich in those goods to augment the resources destined to the Sovereign Wealth Funds, and this made those Funds more likely to diversify their portfolios and to invest in share instruments. At the same time, the depreciation of the dollar, has pushed the Sovereign Funds to reduce the exposure towards US state securities. The first five SWFs hold more than 50% of the entire wealth managed from SWFs, and the first 10 almost the 75%.[7] Table 1 following, shows the first 30 SWFs based on the managed wealth of each fund and proves our previous claim:

[7] Consob – Quaderno sui Fondi Sovrani pg. 10-11

Table 1: Shows the 30 bigger SWFs for wealth managed

State	Sovereign Wealth Fund (SWF)	Managed Wealth	
		billions US $	cumulative % on total
UAE- Abu Dhabi	Abu Dhabi Investment Authority	625	15,7
Norway	Government Pension Fund – Global	530	29
China	SAFE Investment Company	347	37,7
China	China Investment Corporation	332	46
Singapore	Government of Singapore Investment Corporation	315	53,9
ChinaHong Kong	Hong Kong Monetary Authority Investment Portfolio	293	61,4
Kuwait	Kuwait Investment Authority	202	66,4
Singapore	Temasek Holdings	140	69,9
China	National Social Security Fund	120	72,9
UAE - Dubai	Dubai World	100	75,4
Russia	National Welfare Fund	88	77,6
Qatar	Qatar Investment Authority	80	79,6
Australia	Australian Future Fund	71	81,4
Libia	Libyan Investment Authority	70	83,1
Algeria	Revenue Regulation Fund	61	84,7
Brunei	Brunei Investment Agency	39	85,7
US -Alaska	Alaska Permanent Fund	39	86,7
South Korea	Korea Investment Corporation	37	87,5
Malesia	Khazanah Nasional	36	88,5
Kazakstan	Kazakhstan National Fund	30	89,2
Kazakstan	Samruk Kayna National Welfare Fund	29	89,9
Venezuela	National Development Fund	27	90,6
France	Strategic Investment Fund	26	91,2
Russia	Reserve Fund	25	91,8
Azerbaijan	State Oil Fund	24	92,4
UAE - Abu Dhabi	Mubadala Development Company	23	93
Ireland	National Pensions Reserve Fund	22	93,6
UAE - Abu Dhabi	International Petroleum Investment Company	21	94,1
Canada	Alberta's Heritage Fund	15	94,4
US - New Mexico	New Mexico State Investment Council	15	94,7
	Total	3767	94,7

Giving a deeper look to SWF we see that most of them were established in countries that are rich in natural resources like oil; we also acknowledge that according to Ernest & Young, SWFs account for 10% of all PE investment in recent years, and that this share is expected to grow. We can observe that investments by SWFs are mainly relevant for large companies; most of the investments are concentrated in a small number of European countries (France, Germany, Great Britain, Italy) and in a limited number of branches (banks, heavy industry, logistics).[8]

1.2 SOPEs: what do they really are?

The purpose of SOPEs (State-Owned Private Equity funds) is to invest in domestic companies, and encourage the development of new sectors in the region. Their structure and operations differ vastly from that of traditional private equity funds; first, the base of limited partners is made up of government bodies and various city governments. Hence, the general partners need not go through the fund-raising process by themselves. Second, because the fund is government initiated, the selection of the general partners (GPs) and investment committee will be made by the government, that forms the limited partners (LPs) base. Third, there is a possibility of a lack of independence and objectivity among the general partners, the investment committee, and the LPs.

[8] Private Equity Final Report 2009, pg. 15

Allowing LPs a part in the PE investment decisions would give them unlimited liability in the fund like the GPs. [9]

The appearance of the sovereign investment vehicles (Sovereign Funds, Strategic Funds and public investment Banks) contributed to redefine the role of Governments in the economy, with particular attention at the direct investments in enterprises' capital. Especially in Europe, the dualism between the conception of Government Entrepreneur and that of Government Regulator has been solved involving a new perspective: the Government as an investor (Government Investor). Nowadays, the institutional investors carry out a very important role in the financing of global social-economic growth, and thanks to the wide availability of finance resources, they have transformed the public sector into a primary investor at international level. These vehicles can be divided into sovereign funds and other sovereign investment vehicles; they are public held instruments, even if the financing, functioning and objectives can differ substantially. Following the International Working Group (IWG) on the Sovereign Investment Funds, the Sovereign Funds are funds or other investment vehicles created with a specific objective and are hold by the Governments.

Typically, strategic funds are different from other institutional investors like SWFs in that the major amount of the disposable richness comes, in the first case, from public or private financial resources, generally guaranteed by the State, while, in the second, richness derives mainly from surplus of the exchange balance. Another element of distinction is represented from the objective of the

[9] Private Equity in China: Challenges and Opportunities, Chapter 3 "Private Equity Funds"

investment, which in the case of strategic funds, is to promote the development of the country through the participation to the capital of risk of the enterprises of relevant national interest, while in the case of the SWFs, given the huge disposability of financial resources, is that to implement an adequate diversification of the investment portfolio.[10]

In the beginning of the second millennium, given the financial crisis caused by subprime mortgages (2000-2007), a new phase of expansion of the sovereign funds was registered, thanks to the increase in prices of primary resources, which has favored the birth of commodity funds, while the display of the financial crisis associated to the implementation of particular strategies with the objective to collect reserves has favored on the other hand the development of non-commodity funds.

In the year 2000, Algeria created the Revenue Regulation Fund and Kazakhstan its National Fund, two funds for stabilization issued with the aim to isolate the state balance from the fluctuation of prices of hydrocarbon and oil respectively.

In 2002 the United Arab Emirates issued Mubadala Investment Company, while the year after they created Istithmar World, which will become one of the principal investment vehicles of Dubai World (sovereign fund issued in 2006 aimed at promoting the economic growth of the Emirates, through the acquisition of participations in strategic sectors). In 2004 is important to mention the creation by Russia of the Oil & Gas Fund, aimed to isolate the state balance from fluctuations in oil and natural gas prices.

[10] Crescere per Competere, pg.20

Among the non-commodity funds in this period, of major importance is the issue of the French Pension Reserve Fund in 2000, the New Zealand Superannuation Fund in 2001, as well as the creation of the Irish National Pension Reserve Fund. Moving our attention to South-Est Asia, in 2005 was issued the Korea Investment Corporation, through the transfer of 17$ billions of reserves in foreign currency, aiming at managing them with a greater propensity to the risk; two years after was issued the China Investment Corporation, appointed to the “aggressive” gesture of 200$ billions of excess foreign reserves.

In 2008 was issued in France the Strategic Investment Fund. It consists of a fund that is being redirect to the condition of “strategic fund”, created with the objective to invest in national enterprises of relevant strategic interest to augment the competitiveness and promote the growth. The French fund, managed by the Caisse des Dèpots, has as investment strategy the acquisition of participations in French enterprises to favor their development. Getting deeper in the idea of strategic fund, the fund, that has an initial endowment of 28€ millions, was born with the starting objective to avoid during periods of crisis and recession, the French enterprises acquired from foreign investors.

Similarly to what happened in France, the Italian government issued to protect its enterprises, in July 2011, the Italian Strategic Fund (FSI), whose mission and activities will be better explained in the last chapter of this paper.

1.3 Private Equity: a closer look to its meaning

In order to understand the concept of State-Owned Private Equity (SOPE) Funds, it is better for us to introduce what a Private Equity Fund is, since it is a concept closely related to the one we are going to analyze in our work.

Introducing some basic concepts regarding Private Equity funds, we can initially give a brief and conceptual definition of Private Equity as an equity investment in a private company that is not listed in a stock exchange; it is usually referred to as an own asset class including either an investment of capital into an operating company or the acquisition of an operating company.[11]

Going further in our understanding of Private Equity we need to remember that: "to run a Private Equity fund, a certain number of industry professionals would establish a private equity firm (or management company) through a general partnership agreement (GPA) by sharing 100% of its capital. General Partners (GPs) would be actively involved in the targeting, investment and management of those companies that become part of the PE fund portfolio (portfolio companies)".[12]

A third perspective regarding Private Equity, by Klein, Chapman and Mondelli, defines it as: equity capital that is not traded on public markets; it includes investments in early-stage firms by "angel" investors and venture capitalists as well as investments in later-stage, mature enterprises by buyout firms.[13]

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[11] Private Equity Final report , pg. 11
[12] Private Equity Targets, Baldi pg.2
[13] Symposium, Private Equity and entrepreneurial governance: time for a balanced view, pg. 39

Interesting regarding the sector of modern Private Equity is that it emerged with KKR's buyout of Houdaille Industries in 1979. The sector has since gone through three major cycles, spread from the United States to Britain in the 1990s and Asia and Europe in the 2000s, and become a critical element of modern financial markets.[14]

For some values now to better acknowledge private equity and it's development we know that it accounts for somewhat less than one third of global PE activity. PE is concentrated in specific types of activities such as mergers and acquisitions (M&A), accounting for up to 28% of M&A quarterly deal volume in Europe and for an even greater proportion of buyout activity. [15]

The table below shows the importance in M&A activities of PE in EU for the years 2003-2007:

Table 2: Importance in M&A activities of PE in EU for the years 2003-2007[16]

	Overall EU M&A		Europe PE M&A	
Financial Year	Value ($mil)	Deals	Value ($mil)	Deals
2003	504.009,10	10.076	83.707,90	757
2004	839.838,20	12.675	149.640,90	1132
2005	992.496,70	10.715	171.949,50	1206
2006	1.320.256,70	12.603	280.361,40	1725
2007	1.592.773,90	14.647	247.004,10	2081

To conclude our introduction on private equity and to attach it to our main objective in the paper we can define Private Equity as: "a governance structure,

[14] Symposium, Private Equity and entrepreneurial governance: time for a balanced view, pg. 39
[15] Private Equity Final report , pg. 11
[16] Private Equity Final report , pg. 12

one that emphasizes strong performance incentives, rules over discretion, and a strong alignment between ownership and management".[17]

[17] Symposium, Private Equity and entrepreneurial governance: time for a balanced view, pg. 39

Chapter 2 - SOPE'S: a Global Phenomenon

2.1 The Fond Strategique d'Investissement

The State of France which has always been protecting and preserving its own economy, has in the last few years even increased its efforts to safeguard the economic environment. This is mostly due to the recent economic recession which exposed French companies to the open market risks where several foreigner groups and funds attempted to buy shares of national interest.

Two case studies of this French economic policy are:

- Danone (2005) for which a State intervention managed to stop the acquisition.
- Suez-Electrabel, for which the French institutions protected the company from an attempt of merging by the Italian company ENEL.

These two case studies represent eloquently the main target of the French government: a long term protection of the industrial know-how of the French industry against foreigner "attacks", either EU or non-EU countries since this aspect is perceived as fundamentally strategical to preserve the country development[18].

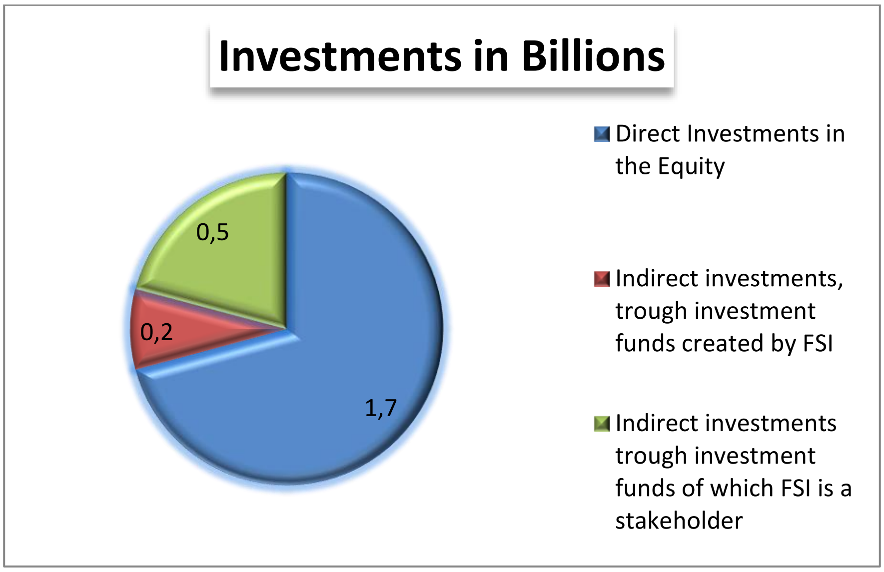
One of the tools used to achieve this objective is the *Fond Strategique D'Investissement* (FSI). This Fund was established at the end of 2008 aiming at strengthening the French economy during periods of crisis and recession (and a weak stock market) against foreigner investors.

The 51% of the FSI shares are held by the *Caisse des Depots et Consignations*, whilst the remaining 49% is held by the French Government. The FSI total value

[18] IAI (Istituto Affari Internazionali) documents, M. Nones e G. Gasparini, Il controllo degli investimenti stranieri nel nascente mercato europeo della difesa e sicurezza. Rapporto Finale, Roma, 2008, pag. 37. (http://www.iai.it/index_it.asp)

is estimated at 28B€, despite only 2,4B€ used for direct or indirect investments namely employed as follows[19]:

- 1,7B€ as capital shares of 21 big companies;
- 200M€ for indirect investments through Funds specifically set up by the FSI for 65 companies;
- 500M€ again through indirect investments for 340 subsidaries FSI



FSI is committed to support[20]:

- Support the development of the SME (Small Medium Enterprise) with enterprise value < 100M€ acting directly into the risk capital in order to encourage the growth.
- Enterprises of medium size with a high value potential.
- Mid-sized enterprises which operate in emerging industries which are solid and may become a future benchmark in their own field;

[19] FSI Fond Stratégique d'Investissement, Rapport d'Activité 2010, Parigi, 2011. (http://www.fonds-fsi.fr/)
[20] FSI Fond Stratégique d'Investissement, Les orientations statégiques du Fond statégique d'investissement, Parigi, 2011. (http://www.fonds-fsi.fr/le-fsi/)

- Mid-sized or large enterprises which play a significant role in their own industry through a stabilization of their capital shares thus sustaining a complete finalization of the industrial plan which will bring added value.

The FSI invests in existing enterprises, therefore it can be compared to a Private Equity fund, only with a clear distinction with the Venture capitalist, as to the Investments strategies they are to be considered as “logics of minorities” and each project must have a clear defined timeline. A major difference with other projects is the existence of a high technological element. And this is where the public nature of the Funds comes to the surface being an Entity with a specific focus on the social aspects of any industrial project.

After all the FSI invested 2,4B€. Such funds are distributed in different industries of the French economy, both with direct or indirect interventions among which we outline[21]:

Industry	Enterprise
Agriculture & Food	Danone
Energy	Tecnhnip Vallourec
Environment	Sèchè Environment
Telecommunications	France Telecom Eutelsat TéléDiffusion de France
IT	Cedegim
Infractuctures and Transportations	Renault Aéroports de Paris Eiffage
Automotive components	Valeo Mecaplast

[21] M. Arnese, Niente fondo sovrano per l’Italia, ItaliaOggi, Milano, 27 aprile 2011.

Semiconductors	ST Microelectronics
Shipyards	STX France Cruise

The names displayed in the board above prove how the FSI activities are mostly focused in the present, with an eye to the future. The FSI must therefore guarantee France competitiveness in the medium and long term which can be emphasized in a recent statement of the Finance Commission of the French Senate: "The real challenge is to keep the decision-making power in French hands". In other words, assure to preserve and maintain the pulsing heart of the French economy within the country secure boundaries.

2.2 Finnish Industry Investment Ltd.

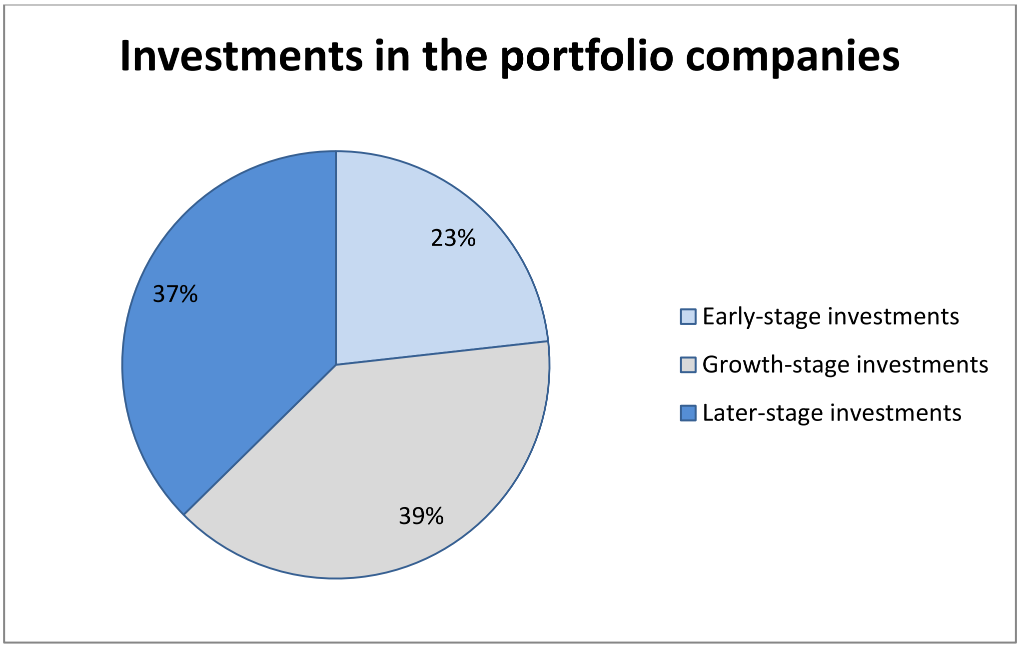
Finnish Industry Investment Ltd. (FII) is a state-owned Finnish company created in 1995 which helps small and medium enterprises to access faster at risk capital. The FII original mission was to promote innovative entrepreneurship, to improve Finnish companies' prospects for growth and internationalization, and to develop Finland's industrial structure and the private equity sector.

FII objectives are to stimulate Finnish industry, promote the development and deployment of new technology, while creating new growth companies, jobs and wellbeing. It does this by providing venture capital and private equity financing to companies[22].

FII have produced effects from the start bringing Finnish private equity market to change rapidly as the role FII plays. FII has 0,6 B€ in assets of which two thirds are co-invested with private investors or invested through funds to over 500 companies. FII operates primarily through PE funds but it operates also making

[22] FII annual report, 2012

direct investments. In 2012 the FII investments market value was about 412 M€ of which 267 M€ of funds and 145 M€ of direct investments. In the last years FII had invested 100 M€ per year on average. The investments are distributed like this:



FII invested in companies with over 50.000 employees, but for weighted share only 3.800 are directly implied by the fund. FII fund investments have catalyzed indirectly significant growth of portfolio companies. Private equiy targets have grown over two-fold during the investment period. Meanwhile, direct PE investments growth rates go slower than other PE funds growth rates, making results not too much satisfying[23].

[23] Evaluation of Finnish Industry Investment Ltd., Innovation 2014, Matti Saarikoski, Pekka Roine, Juha Ruohonen, Antti Halonen, John Sulin, Herve Lebret, Publications of the ministry of Employment and the Economy, 2014, Pg 22-36.

2.3 The Irish Strategic Investment Fund

The Irish Sovereign Investment Fund (ISIF) started on the 22nd of December 2014.

The ISIF will seek to invest in transactions where it can make a difference, where its charachteristics can enable commercial investment transactions with positive economic impact and can make it an attractive "investor of choice" for company and project sponsors and advisors.

The ISIF is not costrained by regulations, prospectuses or liquidity requirements. It can invest anywhere up and down the capital structure; from safe first security debt all the way along the risk spectrum to start-up venture capital. Flexibility along the capital structure will be one of the ISIF's key attributes.

The ISIF is designed to be a long-term fund and beyond dividend type payments after 2025, there are no provisions for amounts to be withdrawn from the Fund. This design enables the ISIF to be a source of "permanent" or "patient" capital that can work to a longer-term horizon than most participants in the market.[24]

In seeking to support economic activity and employment as well as generating commercial return, the ISIF has what is described as a "double bottom line" requirement fro the Fund, necessitating that all of the Fund's investments generate both investment returns and a positive conomic impact in Ireland.

ISIF has a dual mandate and makes investments on a commercial basis. It is important to understand that investment is very different from the provision of grants, of the incurring of expenditure by the state in support of economic impact. As the Fund is expected to make a financial return, there is no depletion of State resources arising from its activities. Therefore economic impact achieved by ISIF is effectively at zero cost to the Exchequer. Furthermore, when investments are

[24] ISIFInvestmentStrategyExecutiveSummaryJuly2015 pag. 2-3

sold, the proceeds can be recycled into further investments, which in turn can generate additional economic impact from the same initial capital.

ISIF's investments in Irish based companies and projects not only create jobs directly through direct employment, but also have an indirect effect through service contracts and capital investments entered into by investee companies and projects.

In addition, an induced employment effect is generated arising from direct and indirect employees spending their income in the Irish economy. The underlying investees deliver a mix of short term economic impact and long term persistent economic impact. Permanent/persistent jobs currently account for 81% of total jobs while the remaining 19% of jobs are generated from fixed term investments that are typically project based. While these employees may move onto other projects, ISIF only accounts for the jobs for the period of its investment.[25]

In order to achieve a positive economic, the ISIF will use three key economic concepts to assess how an investment or project will positively affect economic activity:

1. Additionality: refers to the additional economic benefits to $\frac{Gross\ Value\ Added\ [GVA]}{Gross\ Domestic\ Product\ [GDP]}$ which are likely to arise as a result of the investment under consideration, over and above what would have taken place anyway.
2. Displacement: refers to instances whereby the aditionality created from an investment is reduced or made smaller at the overall economy level due a reduction in such benefits elsewhere in the economy.
3. Deadweight: refers to instances whereby the economic benefits created from an investment would have been achieved in any event in the absence of intervention. Investment opportunities which lead to economic additionality and have low levels of displacement and deadweight are likely to result in a high economic impact at the overall economy level over the long-term. [26]

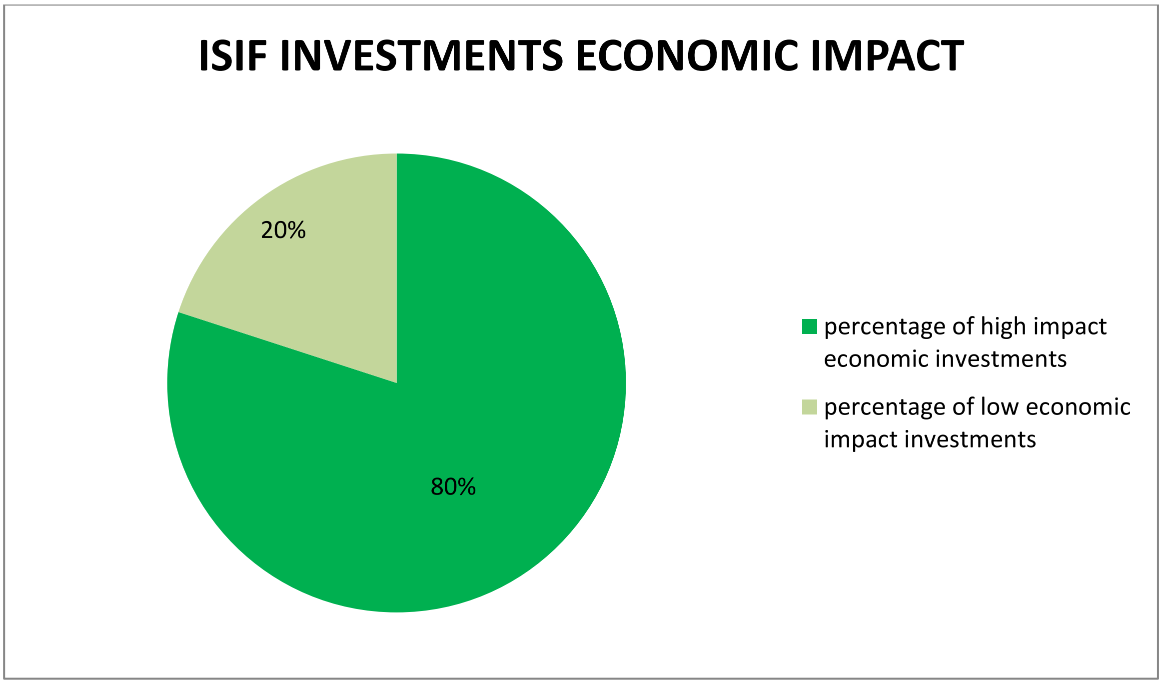
[25] ISIF Baseline Economic Impact Report pag. 6

[26] ISIFInvestmentStrategyExecutiveSummaryJuly2015 pag. 7

Economic additionality can come in many forms: including increased output, profits, net exports and capital expenditure. The supply of enabling infrastructure also creates additionality in the future, by facilitating future competitiveness of the economy. Similarly innovation and investment in research and development [R&D] also have a long-term additionality that may not be immediately evident but are necessary ingredients for long-term sustainable economic growth. Employment as well is one important measure of economic additionality. Employment arising from investment can be direct, indirect or induced employment.

The ISIF will adopt a strategy of investing in areas where the economic impact of its investment, consistent with economic theory and with Ireland's experience over many decades, is expected to be highest. The targetted areas for investing will be those which are beleaved to have higher potential economic and employment impact, these will form the majority of the ISIF portfolio over time. The balance of the portfolio will be invested in those sectors with a lower economic impact in terms of overall levels of additionality but with short term employment benefits and where it is expected the ISIF investment will accelerate normalisation of capital markets.

In the following figure we can see what just explained in graphic form:



It is anticipated that the Fund will initially have close to an equally balanced allocation towards high economic impact and lower economic impact investments.

Deadweight occurs when the economic impact benefits would have been achieved in the absence of an ISIf investment and therefore there is no increase in GVA attributable to the ISIF investment.[27]

The ISIF's ultimate investment portfolio will include investments across a range of sectors including infrastructure, housing, the SME sector, food and agricolture, real estate based investments, venture capital, and private equity. The size and nature of the market opportunity for the ISIF in Ireland is highly uncertain. While initial estimates based on best available information have been made of the investment gap in each of the main sectors under consideration, these estimates will be subject to constant revision. he ISIF should not crowd out willing private sector investment, its strategy will focus on where its specific characteristics can make a difference. In this regard, the investment marketplace is constantly

[27] ISIF Investment Strategy Executive Summary July 2015 pag. 8

changing and the ISIF's strategy will undoubtedly need to evolve and adapt over time in light of experience, Government policy and in response to the prevailing transaction opportunity set.

Table : shows the ISIF portfolio Illustrative Allocation

Bucket	Theme	€m	+/- range
1	Water	700	100m
2	Infrastructure	850	150m
3	Energy	800	100m
4	SMEs	900	200m
5	Food & Agriculture	500	50m
6	Real Estate Based Businesses	1,000	200m
7	Venture	500	50m
8	Direct Private Equity	400	40m
9	Innovation/Big Idea	1,000	200m
10	Other	750	50m
Total Fund Size		7,400	

While no regional constraints have been set as part of the mandate, the ISIF is required to report on its investments on a regional basis. More importantly, the

ISIF in its origination efforts intends to seek out transactions across the country. It is recognised that economic conditions are different between the Dublin area and the rest of Ireland and that superior investment returns and greater economic impact can potentially be achieved in areas where costs are lower and current economic activity is more subdued. [28]

2.4 The Russian Direct Investment Fund

Russian Direct Investment Fund (RDIF) is the Russian strategic fund established in June 2011. It's a 10 billion dollars fund which operates as private equity fund by investing in high-growth sectors in the Russian economy which are considered important for the growth of the whole economy. It was created to improve and attract foreign investments in Russia and for making Moscow a global financial center. The RDIF mission state that it has to act as a catalyst for foreign direct investments, talent and technologies into Russia by attracting leading international co-investment partners. The main focus are on creating market leaders, help the growth of the middle class, invest in the industries with sustainable competitive advantage and to look for opportunities to increase in a strong way the production efficiency. The objectives of the Fund are to attract direct investments into the domestic economy, to maximize returns on investment, spur innovation and contribute to economic modernization. The equity share in the investments owned by the RDIF is between 50-500 million dollars, and cannot be more than 50% of the total equity, because the fund follows a co-investment model where there have to be a co-investor that holds at least the same size of equity share of RDIF[29]. To better attract long-term investments, RDIF established many partnerships with many sovereign wealth funds. Among these sovereign wealth funds, there are Fondo Strategico Italiano (FSI) wherewith have created a €1 billion Russian-Italian investment platform and

[28] ISIF Investment Strategy Executive Summary July 2015 pag. 4-5
[29] (http://www.rdif.ru/about/)

Caisse des Dépôts International (CDC International), wherewith have launched in 2013 the Russia-France Investment Fund (RFIF) which seek attractive investments across a broad range of sectors and asset classes, including equity and debt securities, infrastructure and real estate in Russia and France with strong focus on opportunities promoting economic co-operation between the two countries[30].

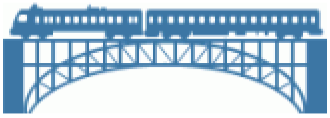
The RDIF operates in many sectors. The main transactions made by the fund are the following[31]:

COMPANIES	TYPES OF OPERATIONS
МАГНИТ	RDIF, Russia-China Investment Fund (RCIF), the joint fund of RDIF and China Investment Corporation (CIC), and other leading institutional co-investors participated in equity offering of PJSC Magnit. Magnit is the Russia's largest retailer.
Detsky Mir	The Russia-China Investment Fund (RCIF), the joint fund of RDIF and China Investment Corporation (CIC), has acquired 23.1% of JSC Detsky Mir, Russia's largest retailer of children's goods. RCIF will support expansion of Detsky Mir's nationwide network of stores and further development of

30 (http://www.rdif.ru/Eng_Partnership/)
31 (http://www.rdif.ru/Eng_Portfolio/)

	logistics platform. This will also extend its modern sales and distribution channels for children's products throughout Russia and the CIS. Additionally, the Group is considering opportunities for international expansion in the mid-term perspective.
NORD HYDRO	RDIF, the Government of the Republic of Karelia, Nord Hydro and subsidiaries of the China Railway Construction Corporation, invested in constructing small hydropower plants in Karelia. Under the agreement two small hydropower plants will be constructed. The project aims to create new, renewable and environmentally friendly energy sources to efficiently develop the Republic of Karelia's power system.
SIBUR	A consortium of investors, comprising RDIF and leading Middle Eastern sovereign wealth funds have invested in SIBUR's ZapSibNeftekhim project – an

	integrated petrochemical complex in Tobolsk, Tyumen Region (Russia). The funds will be used to develop industrial infrastructure for a forthcoming facility, which will process raw hydrocarbon materials into polyolefins. The project is aimed at deep conversion development of large volumes of Western Siberia’s oil and gas by-products, including associated gas, and the import substitution of highly demanded polymers in the Russian market. The development of this facility is currently SIBUR’s largest investment project.
	A consortium comprising the RDIF and leading international investors has announced the completion of a deal with SIBUR to invest in liquefied petroleum gas (LPG) and light oil products transshipment terminal in the commercial sea port of Ust-Luga (Russia). The consortium plans to continue investing in the terminal's development, with capacity

	expansion project already underway.
	Russia-China Investment Fund (RCIF), the joint fund of RDIF and China Investment Corporation (CIC), and other leading institutional co-investors announced an investment to construct the first ever railway bridge over the Amur river on the border between Russia and China. The new bridge will have a capacity of up to 21 million tonnes per year and will connect the Jewish Autonomous Region with the Chinese province of Heilongjiang.
LENTA	RDIF acted as a lead anchor investor in the SPO of Lenta Ltd., one of the largest and most successful retail chains in Russia. RDIF was joined by its co-investors and partners from the Middle East, Asia and Europe alongside other investors to support growth and development of Lenta in Russia.

ROSSETI	RDIF together with international investors and Rosseti (JSC Russian Grids) will invest in the project aimed at introducing “smart grids” across Russia’s regions using funding granted by the Russian National Wealth Fund (NWF). The construction of “smart grids” will improve the energy efficiency of Russian Grids’ subsidiary and dependent companies. Kaliningrad, Yaroslavl and Tula have been chosen as pilot regions for the project.
ALROSA	RDIF has attracted a number of leading foreign investors from North America, Middle East, Western and Northern Europe and Southeast Asia into a consortium to invest in the IPO of ALROSA, a Russian diamond company. ALROSA is the largest diamond producer in the world by output in carats.
	The consortium comprising RDIF, Changi Airports International

Vladivostok International Airport	(CAI), a wholly-owned subsidiary of the world's leading airport operator Changi Airport Group, and Basic Element, one of Russia's diversified industrial groups, has been announced as the winner of the tender to acquire shares in Vladivostok International Airport in Russia's Far East. Vladivostok International Airport is strategically important for the development of the air transportation system in the region due to its geographical location – the crossing of two air routes between the Russian Far East and the Asia Pacific region.
Rostelecom	RDIF together with Deutsche Bank and the leading investors from the Middle East made a joint investment in one of Russia's largest telecommunications companies, Rostelecom. The investment will be used to further develop and strengthen the company's market position.

	Funds from RDIF, the Russian National Wealth Fund (NWF) and private investors will be used to finance projects aimed at eliminating digital inequality across Russia’s regions in partnership with Rostelecom. NWF funds were granted to RDIF to finance infrastructure projects.
	RDIF, the European Bank for Reconstruction and Development (EBRD) and other leading institutional co-investors made a joint investment in Cotton Way, Russia’s leading commercial laundry and textile management company.
	RDIF led the consortium of investors including the European Bank for Reconstruction and Development (EBRD), CapMan, one of the leading Nordic alternative asset managers and other leading institutional co-investors. The consortium invested in growth of MAYKOR, the leading player in the Russian IT

	and business processes outsourcing market.
	A consortium comprised of RDIF, One Equity Partners, Titan International Inc., leading international strategic player, and other leading institutional co-investors, jointly invested in Voltyre-Prom, the largest producer of agricultural and industrial tyres in Russia & CIS.
	Consortium of RDIF, Baring Vostok Private Equity and UFG Private Equity together with media entrepreneur Paul Heth and other leading institutional co-investors acquired a controlling stake in Karo Film, one of Russia's leading and fast developing cinema chains.
	RDIF, Baring Vostok Private Equity Fund V and other leading institutional co-investors invested in Tigers Realm Coal Limited (TIG), an Australian listed company with coking coal assets in the Chukotka

	province in Russia's Far East. The funds will be used by TIG to further develop and continue exploration of deposits in Chukotka.
RFP Group Russian forest products group	Russia-China Investment Fund (RCIF), the joint fund of RDIF and China Investment Corporation (CIC), made its first investment in RFP Group (Russian Forest Products), Russia's second largest wood processing company.
MOTHER & CHILD GROUP OF COMPANIES	RDIF acted as the anchor investor in the IPO of the MD Medical Group (MDMG) bringing BlackRock, Russia Partners and other qualified institutions as co-investors. MDMG is the No 1 private network of prenatal clinics and hospitals in Russia.
MOSCOW EXCHANGE	RDIF invested in the Moscow Exchange prior to its IPO and brought a number of investors including China Investment Corporation (CIC), BlackRock, the European Bank of Reconstruction

	and Development (EBRD), Cartesian Capital and other leading institutional co-investors. Later the fund acted as the anchor investor in the IPO of the Moscow Exchange and in placement of the Central Bank of Russia block attracting in both transactions leading international co-investors from the US, China, Singapore, UAE, Qatar, UK and Germany.
Enel	Consortium of RDIF, Macquarie Renaissance Infrastructure Fund (MRIF), AGC Equity Partners, Xenon Capital Partners and other leading institutional co-investors acquired a blocking stake in Enel Russia, one of the leading power generating companies in Russia. This was the largest private equity deal in the energy sector. Investment by AGC in this deal was the largest ever investment in Russia from a Middle Eastern investor.

2.5 Bohai Industrial Investment Fund

The Chinese government is encouraging the development of the private equity sector. To help the development go faster, China have created State-Owned industrial private equity funds (SOPEs). The most notable one is the Bohai Industrial Investment Fund.[32]

Bohai Industrial Investment Fund (BIIF) was established in Tianjin City on December 30 of 2006. The fund is a close-end contract type fund, which have the term of the fund contract in 15-years. The BIIF, which is part of the Bank Of China International holding limited (BOCI), is the first RMB-denominated contractual private equity investment fund in China. BOCI group is not the only investor. The investors in the fund also include the National Council for Social Security Fund, China Development Bank, China national post office, Jinneng Investment Company of Tianjin, China Life Insurance Corporation, China Life Insurance Company Ltd. And Bohai Industrial Investment Fund Management Company. The fund size of Bohai Industrial Investment Fund has amounted to RMB 20 billion (US$2.8 billion), with an initial closing of RMB 6.08 billion (US$ 860 million). Bohai Industrial Investment Fund actively invests in Bohai Rim Region as well as nationwide.[33] The higher authority in the firm is the BIIF general meeting of the holders of the fund, which makes all the important decisions. BIIF acts as a PE fund, so it will invest by buying shares of unlisted companies and will cash out their investments at the time the company's stick is listed on an exchange. The advantage of the BIIF compared to the others PE funds are that:

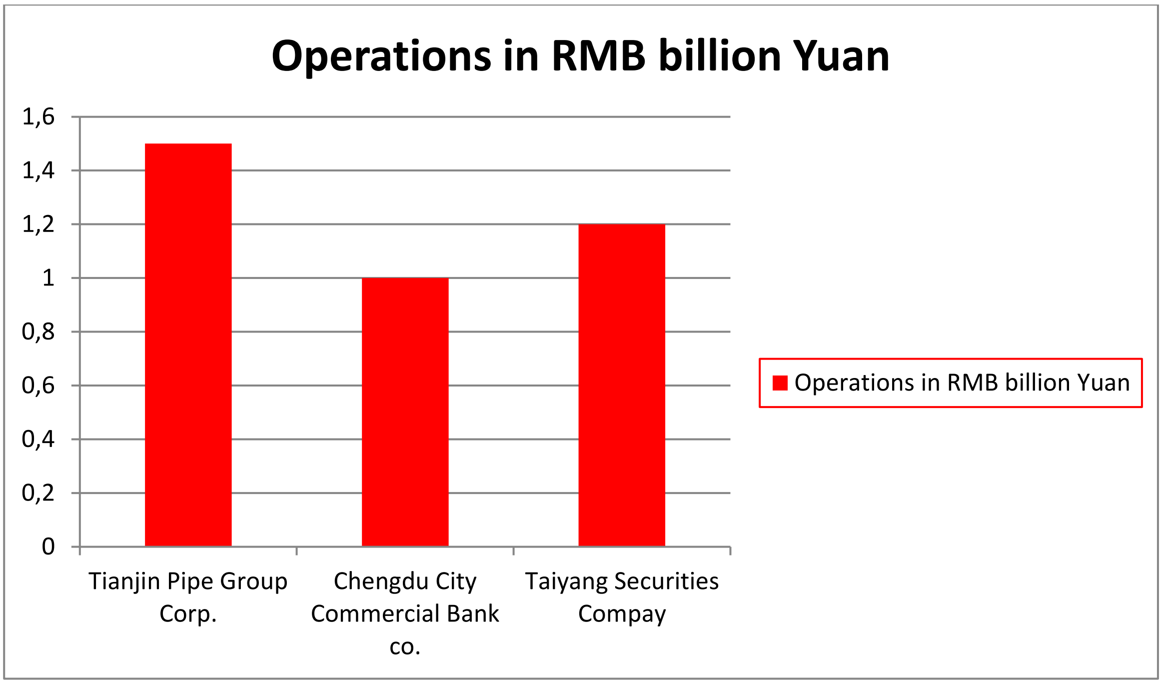
- As a governmental backed PE, lies in that it faces no industry policy limitation which may be imposed on foreign capital.

[32] Private Equity in China: Challenges and Opportunities, Kwek Ping Yong, John Wiley & Sons Singapore Pte. Ltd. Editor, 2012, pg.
[33] http://www.bocigroup.com/pub/en/institutional/finance

- As a Yuan-denominated private-equity fund in China, at the time that more and more state-owned medium and large size enterprises return to national securities market, the withdrawal mechanism has more advantages for local investors.
- As a Chinese domestic PE, the obstacles facing BIIF's operations may be less cumbersome than that faced by foreign PE funds. This means that comparing with US dollar PE fund, BIIF has fewer regulations to handle from the authorities, and the procedural complications may also be less burdensome.

The main operations done by Bohai Industry Investment Fund are the following:

On November 2 of 2007, BIIF invested RMB 1.5 billion Yuan to buy a minority shareholding in Tianjin Pipe Group Corp. from Tianjin Pipe Investment Holding Company. Tianjin Pipe Group Corp. now is the largest Seamless Steel Tube producer in the world and its economic dynamics make it an outstanding firm amongst the main iron and steel enterprises. BIIF's investment in Tianjin Pipe Group Corp. is the implementation of the desired strong union of financial capital and industrial capital in China. On November 22 of 2007, BIIF declared that it had purchased 10% shares of Chengdu City Commercial Bank Co., which was worth RMB 1 billion Yuan. This investment made BIIF the third largest stockholder of the bank. Established at the end of 1996, Chengdu City Commercial Bank Co. now is the biggest city commercial bank in the west cities of China. On November 26 of 2007, BIIF decided to invest RMB 1.2 billion Yuan in Taiyang Securities Company and this proposal has been submitted to the China Securities Regulatory Commission for the necessary approval. The share price of Taiyang Securities Company is only RMB 8 Yuan, which was equivalent to the market price to net assets ratio of about 2, and price-earning ratio was about 4. With its investment, BIIF will hold 14.29% of the total shares of the securities company.



However, at present, there are some potential constraints to its future success. These are the lack of an established withdrawal mechanism to cash out its investments in companies, the lack of relative law and regulation and double taxation. Policy makers need to reflect on how to solve these problems as soon as possible, not only for the continued development and success of BIIF, but also for the development of PE industry in China.[34]

[34] Review Of Business Research, Volume 10 - Number 5, 2010; Private-Equity Industry In China: the success of Bohai industrial investment fund management company; Amitabh S. Dutta, Florida Institute of Technology, Melbourne, Florida, USA; MingWei Xu, Liaoning University, Liaoning, China; Roger Su, Auckland University of Technology, Auckland, New Zealand

Chapter 3 - SOPES: A Strategic Framework

3.1 Sovereign Wealth Funds

Sovereign Wealth Funds ("SWFs") are vehicles where ownership is shared between government and other investors and where governments support private firms of national relevance through minority equity capital, credit and/or other protections. In short they are investors with a market orientation and a public mandate, so they try to achieve both short-term shareholder wealth maximization and long-term political objectives. By SWFs the State tends to act more as "investor" rather than as "entrepreneur" or "regulator".

Megginson and Fotak (2015) show that the amount of assets acquired by State-owned investment entities has significantly increased between 2001 and 2012 and that it has overcome other ways of acquiring assets by the State.

Several studies have highlighted that SWFs can support recovery playing a relevant counter-cyclical role[35].

Alvaro and Ciccaglioni (2012) propose that SWFs may be classified according to: 1) their financial sources; 2) the purpose of their investments. On the basis of their financial resources we can distinguish between Commodity Funds and Non-Commodity Funds; Commodity Funds get resources from the export of raw materials, while Non-Commodity Funds get resources from the State budget. According to the purpose of their investment SWFs may be classified as: 1) Stabilization Funds; 2) Saving Funds; 3) Development Funds; 4) Pension Reserve Funds; 5) State Funds.

There is an increasing evidence showing that SWFs do not harm companies but rather the latter perform better and enjoy higher valuations after SWF investing[36]. Nevertheless some other studies point out that some features of SWFs (such as

[35] Aghion *et al.*, 2011; Aiginger, 2012 ; Bassanini and Reviglio, 2015; Geron and Greco, 2012
[36] Dewenter *et al.* (2010); Kotter and Lel, (2011); Karolyi and Liao (2016)

longer-term focus and political connections) may lower performance of firms owned by SWFs[37].

3.2 State-Owned Private Equity within the Private Equity industry.

Private equity (PE) is risk capital provided in a wide variety of situations, such as the ones outlined by Hoskisson (2013) and Wright (2013).

Within the broader PE markets in addition to private funds, State-Owned Private Equity (SOPE) have been increasing investments in domestic companies in key industrial sectors. SOPEs have become a new tool of industrial policy for driving growth, competitiveness and internationalization. Although SOPEs have public mandate, their activity is similar to private equity funds so they search for a sufficient capital return, however they can operate with a long term perspective thanks to the support of long term investors.

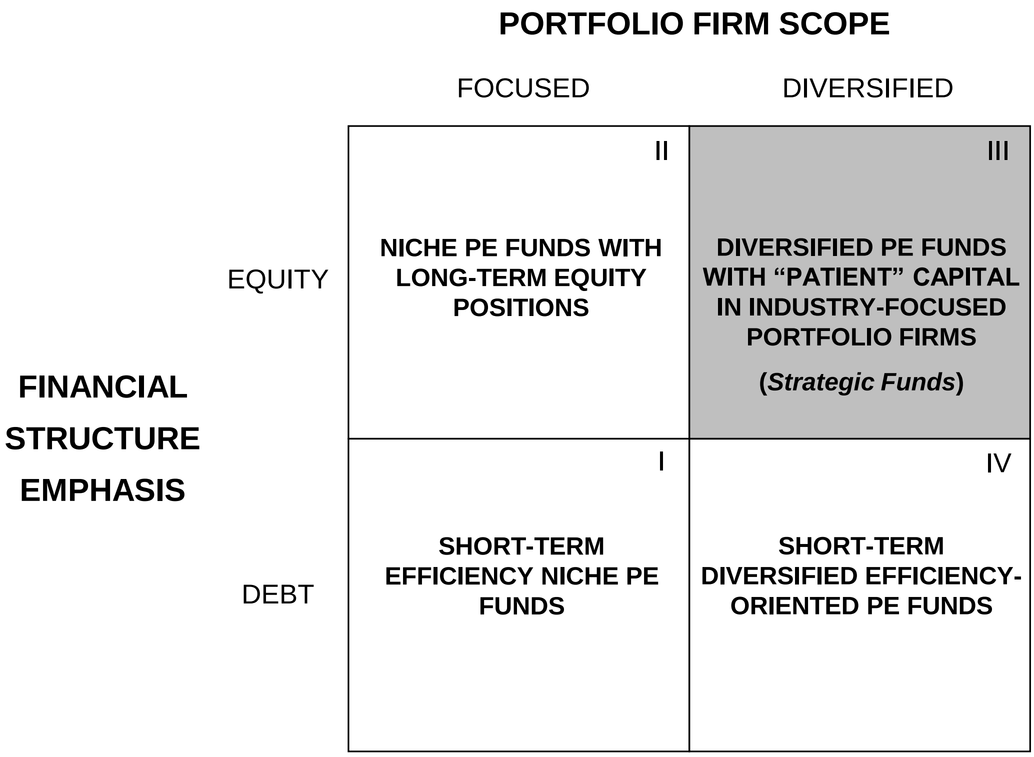
Yong (2012) highlights three features that make SOPEs differ from traditional PEs: 1) government and public bodies make up the core of shareholders, so they don't raise fund in the competitive market for PE capitals; 2) the members of investment committees are selected by the government itself; 3) there could be a possibility of a lack of independence and objectivity among government, the investment committee and controlled corporations, that could undermine their performance.

Aguilera *et al.* (2016) propose a corporation level framework that seeks to identify four SOPEs' strategic governance models; such framework is based on investment motivations (financial vs. strategic) and ownership (public vs. private). Some governments use SOPEs for political goals (e.g. competitiveness, employment, internationalization,..), while some others use SOPEs seek for country-to-country relationships with foreign industry leaders in order to foster industrial diversification and knowledge accumulation.

[37] Bortolotti *et al.*, 2010 e 2015; Knill *et al.*, 2012

Hoskisson et al. (2013) choose two dimensions to model PE firms' strategic positioning into four groups: financial structure emphasis (vertical axis) and portfolio firm scope (horizontal axis) (Figure 1). Baldi and Ciferri (2016) update Hoskisson's proposal in order to fit the taxonomy to SWFs. (Figure 1).

Fig. 1 – Strategic Map of PE firms - *source: Baldi and Ciferri (2016)*



Portfolio firm scope measures diversification within PE firms' portfolios: PEs with focused portfolios usually provide target companies with in-house operational expertise and professional guidance, while PEs with diversified portfolios usually provide target companies with financial expertise only.

PEs in quadrant I ("short-term efficiency niche PE funds") usually have focused portfolios and prefer debt rather than equity. Such PEs can gain competitive advantage through accumulation of relevant know-how and capabilities and are free from market – driven short term schedules. Such PEs usually provide portfolio companies with critical support at every stage of their growth.

PEs in quadrant II ("niche PE funds with long-term equity positions") use more equity than debt and have focused portfolios. Most of such PEs focus on small or medium size businesses in some specific industries so that they can find chances of improving operational processes in order to build market leading companies that can enhance their returns.

PEs in quadrant III ("diversified PE funds with patient capital in industry-focused portfolio firms") usually have large resources, they have strong wide cross-industry knowledge and they want to use their expertise on few corporations in several diversified sectors. They use equity rather than debt and they invest in several businesses in a wide range of sectors. They use large levels of equity financing in order to limit the bankruptcy risk due to heavy use of leverage

PEs in quadrant IV ("short-term diversified efficiency-oriented PE funds") have diversified portfolio and support their target companies mainly through leverage. They are usually large, publicly traded and have decentralized organization specialized in acquiring target firms via leveraged buyouts.

Debt leverage complements their abundant equity capital potential enabling them to make multiple investments and diversify their overall portfolio risk and the use of rapidly amortizing debt instruments accelerates target firm divestitures so that they can investors' short-term profit expectations.

Strategic Funds (private and public) may be positioned in quadrant III (diversified portfolios mainly through equity). They actually invest into target firms following specific goals and reasons (e.g., selected sectors, market leadership, growth potential, …) and they nominate additional board members in order to develop joint strategies with existing top management. Strategic Funds aim to accumulate expertise through industry specialization in diversified but narrow scope of target firms and equity financing and explicit government support foster long term commitment.

The above framework is rather helpful for examining the rationale behind investment strategies usually adopted by Strategic Funds that are partially different from the rest of mainly private PE industry.

3.3 A taxonomy of Strategic Funds based on international comparison of SOPEs.

Baldi and Ciferri (2016) have recently proposed a further taxonomy of SFs based on the European sovereign investment landscape, that features the activity of five *SFs*: ISIF (Ireland), FII (Finland), RDIF (Russian Federation), FSIF (France) and FSI (Italy).

Looking at their commonalities and specificities and with no claim of being exhaustive *SFs* may be labeled as *competitive* or *defensive* depending on the presence of certain characteristics over others.

Competitive SFs aim at long term impact on local economy by promoting innovation and high-growth sectors, by fostering internationalization of mature companies and by nurturing local PE industry.

Defensive SFs' missions are enhancing competitiveness in strategic sectors and protecting domestic companies from foreign hostile acquisitions.

Baldi and Ciferri (2016) themselves state that the main limit of their taxonomy is related to the very small sample size it is based on (only 5 SFs), anyway they have taken into account all European SFs of such kind. However, they can give some preliminary evidence that SFs can act as intermediaries between financial returns and political power and that they can support nationally-relevant enterprises if some conditions are met, such as long-run investment horizon and learning propensity, maximization of corporate value and strategic advice to existing management.

Chapter 4 – The Case of Italy: *Fondo Strategico Italiano*

4.1 Peculiarities of the Italian production system

A majority of small-medium sized family-run companies often affected by a business approach, which is poorly oriented towards growth, characterizes the Italian manufacturing industry. This so-called "institutional discontinuity" determined by new shareholders and mostly by an opening to the "market" represents a topic moment for the life of those companies, which, especially in Italy, are a direct consequence of concerns by the ownership.

Italian companies are represented by a heavy concentration of shares owned by one major player, which is de facto the sole owner. In many cases, there is no clear separation between ownership and control; therefore, companies are often managed by the strongest shareholders, when not under their direct supervision.

As far as the production is concerned, there is a preponderance of the following industries: agro-alimentary, textile, tourism, cosmetics, pottery, infrastructures and retail.

4.2 The establishment of the Italian strategic Fund SpA

The Italian Strategic Fund SpA (from now on FSI) was established in 2011 through a decree-law of 31 March 2011 no. 34 converted after amendments by Law 26 May 2011 no. 75 concerning "Urgent measures to support culture, press and media, improvement of the public radio frequencies network, State shareholding of the "Cassa depositi e prestiti", and also for the National Health System of the region Abruzzo".

In particular, art. Seven of the above-mentioned decree-law introduced art. 8-bis of the thereof decree-law 30th September 2003 no. 269 which provided the following …] CDP SpA may also take on equity holdings in companies or enterprises of national interest for their strategic and operational domain, level of employment, turn-over and potential impact on the country economic-productive system.

In view of the above findings, by means of a decree-law of the Ministry of Economy and not regulated finances, all requirements are defined even in terms of quantity of companies which may constitute an interesting asset for acquisition by CDP SpA by virtue of this paragraph"

The company was formally set up on 2 August 2011 with share capital of 1B€ subscribed for 90% by the reference shareholder CDP SpA and the remaining 10% by Fintecna SpA. Later, CDP, Banca d'Italia and entered into a special agreement which opened the door to the Central Bank into the Fund shareholders structure with a stable minority stake.

Shareholders of the Italian Strategic Fund.

Fonte: http://www.fondostrategico.it/it/chi-siamo/azionariato.html

4.3 The institutional mission

The main target of the Italian Strategic Fund SpA is to invest in companies and enterprises aiming at creating benefit for its shareholders through a dimensional growth, an improvement of their capacity, affiliation and reinforcement of their competitive position on national and international markets. CDP SpA is mainly active on merging and acquisitions of minority stakes for companies, which are part of the "national interest" status, which are both financially and economically stable with an outlook of profit and development, which are the real benefit for the investors.

FSI pursues profit policies compared to the investments carried out, positioning on the market, in accordance with the idea of having an investor which is not necessarily the major shareholder.

Companies and enterprises which operate in the following industries are considered of significant national interest (as stated by the decree-law of the Ministry of Economy and Finance of the 3rd May 2011 and By-Laws): national defense, security, infra-structures, transportations, communication, energy, insurances, research & innovation, brokering and public services. Outside the boundaries of national interest, there might be opportunities of investment of FSI for those companies which have an annual turnover not below 300M€ and workforce not less than 250 employees. The magnitude can be reduced down to 240M€ and 200 employees in the event of companies which have a significant impact on linked contractors and produce benefits for the national economical-productive system mostly in terms of presence of their manufacturing sites on the territory[38].

[38] Art. 3 of the Articles of Associstion states in particular that those companies which are involved in direct or indirect acquisition of holdings, by holding and managing the rights backed up by equities on capital shares for capital companies which prove interesting perspectives of development and which:
i) are active in the industries of Defense, Security, infrastructures, transportations, communication, energy, insurances and brokerage, research and development with a high technological appeal , public services, tourism, agro-alimentary and retail, management of culture and fine arts
or
ii) despite non active in the above mentioned industries they must present an annual turnover of not less than 300M€ and a number of employees not less than 250 units;
iii) The magnitude can be reduced down to 240M€ and 200 employees in the event of companies which have a significant impact on linked contractors and produce benefits for the national economical-productive system mostly in terms of presence of their manufacturing sites on the territory[38]
Please see link: http://www.fondostrategico.it/static/upload/sta/statuto-fsi/statuto-fsi.pdf

4.4 The Italian Strategic Fund operations

As already stated before, the Italian Strategic Fund invests in those companies, which have a high potential of growth, can improve in terms of operational capacity, and can contribute to an affiliation and strengthening of their position on the market. The Fund can therefore be considered as a long-term investor with a capacity of injecting "patient capital" to back up the path of development for those companies, which are considered strategic for the Italian productive system.

The Fund operations are essentially disciplined by the Ministry of Economy and Finance decree-law of 2 July 2014.

The identification of companies, which can attract an investment by the FSI, is necessarily subject to a clear setting of the targets.

We may consider at least three strategic involvement by fostering the competitiveness, which represent a benefit for the investors:

- Strengthening of the industrial system;
- Consolidation of the local public services sector;
- Support to infrastructure.

In the first case (strengthening of the industrial system), the main target is to avoid that those companies with a high potential fail to improve their competitiveness due to lack of resources. Consequently, FSI is interested in a mid-term investment for those companies which are dimensionally relevant, leader in their respective industries or which show a capacity of leading a process of affiliation with companies of the same market. An additional focus is for those companies, which based on their business plans show a high potential of growth in the international markets. Thanks to the FSI support, such companies shall develop their own business plans so to attract private investments and be very active in the international markets.

As far as the second case is concerned (Consolidation of the local public services sector), it is FSI focus to promote affiliation for a market which although being extremely fragmented, show a high potential of development and increase of operational capacity. A consolidation in the field of public utilities may in fact spark a process of establishment of new enterprises, which would put together effectiveness and financial stability allowing developing a role to attract industrial merging. As already seen in the prior case the establishment of enterprises dimensionally adequate, offers a potential of expansion towards the foreign markets.

In the third case (support to infrastructure), FSI aims at granting those companies which operate in the field of management and creation of infrastructures, both solid and intangible, the necessary resources which may allow them to invest and upgrade their network.

According to a survey carried out among 954 thousand companies in Italy in year 2013 and listed in the database AIDA of Bureau van Djik, the number of companies that may be a potential target of the FSI has been quantified following the next criteria:

- sectoral: ATECO 2007 classification has allowed to identify about 158 thousand companies as part of the "national interest" sector , 31,7% of which economically stable (a positive breakdown of net turnover in the past three financial years);
- dimensional: companies which meet the requirements in terms of turnover and workforce (based on a 3 years period of time) are 588, out of which the 56,8% economically and financially solid;
- within the system: 20% reduction on requirements in terms of turn-over and workforce compared to those of the dimensional criteria, allows to expand the number of companies which are a potential target up of 27 units. However only 14 prove to be financially and economically stable out of which only seven are not considered part of the sectorial criteria.

	Imprese attive afferenti al criterio	di cui in equilibrio economico-finanziario	di cui almeno di media dimensione
Settori di "rilevante interesse nazionale"	157.896	50.049	1.990
difesa e sicurezza	15.779	6.281	93
infrastrutture	35.402	13.461	306
trasporti	17.331	5.117	218
comunicazioni	2.531	870	75
energia	13.133	2.759	314
assicurazioni e intermediazione finanziaria	3.202	952	7
ricerca e innovazione ad alto contenuto tecnologico	2.560	674	25
pubblici servizi	8.544	2.978	226
turistico-alberghiero	17.858	3.919	57
agroalimentare e della distribuzione	37.831	12.156	662
gestione dei beni culturali e artistici	3.725	882	7

Fonte: elaborazioni su dati Bureau van Djik

In terms of investment, there are essentially three criteria:

- The investment should take place preferably through Tier 1 capital. However FSI shall also invest by acquiring existing shares, should the investment not be possible through a mechanism of capital shares increase and should the company show perspectives of development as a positive outcome of the shareholder stabilization;
- The investment is carried out through acquisition of minority stakes. This policy shows consistency of the FSI which does not intend to alter the market dynamics. This principle may be waived in two cases: (i) should the market prove to open to other players (eg. In the event of companies operating in a monopoly, it is possible to buy the majority of shares to ensure access to a context of same opportunities without any discrimination from other players; or (ii) with the aim of adjusting temporary inequality (e.g. In the event of financial inequality which may force to sell at conditions which do not reflect the actual value of the asset);
- The amount of every single investment is normally not less than 50M€ since there is a firm decision not to exceed the limits for each single sector in accordance to the capital available, with a few exceptions and barring the approval of deliberating bodies so to allow an adequate risk management and a control of all public equity backed companies.

4.5 The *governance* of the Fund

The Chairman, the CEO and three executive directors, makes the Board and it is in charge to determine the strategy and approval of the investments. The Fund is also subject to the control of Statutory Auditors. The Bylaws state the existence of a Committee of Investments made by six members' two of which external which evaluates all possible investments through mandatory but non-binding advice. Furthermore, there is a Strategic Committee made by seven experts, which expresses motivated opinions, mandatory but not binding.

Let us now evaluate all operations carried out since 2012.

4.6 Main operations finalised since 2012

In this, paragraph all main operations successfully finalized by the FSI during 2012-2014.

The most important investments in 2012 were Kedrion Group, Metroweb Italia, and Hera.

- Kedrion

Kedrion is an international company, which collects and split human plasma with the final aim to distribute plasma-derived products for the treatment of diseases and severe health conditions like hemophilia and immunodeficiency[39]. This acquisition by FSI, which can be categorized as an investment in the field of research and high technology, was finalized the 5th July 2012 to purchase shares

[39] Plasma-derive products are proteins and part of the human blood which are used to produce pharmaceuticals to combat diseases of coagulation (haemophilia), immunodeficiencies, autoimmune diseases, infectious diseases and which react positively to the treatment of other diseases like Alzheimer. Please see further information clicking on this link http://www.fondostrategico.it/static/upload/fsi/fsi_bilancio-2012_depositato-per-assemblea/fsi_bilancio-2012_depositato-per-assemblea.pdf

equal to 18,6% of the company and ending up being one of the Controller of the company together with the family Marcucci (48,8%) and the Fund for Associated Investors (32,6%).

- Metroweb Italia

Metroweb Italia it is a company that operates as dark fiber provider, by developing and leasing the network infrastructure to the main telecommunications providers in the country that then autonomously implement their offer bringing benefit to the final clients for the package of different connections.

Metroweb Italia in particular provides the access to the network on a special platform called FTTH (Fiber-To-The-Home), which is the fastest connection on the market at present.

The investment of FSI in Metroweb Italia SpA – justified by the fact that the technological infrastructures are a main factor for the economic growth, employment and social development – has been finalized on the 24 December 2012 allowing FSI to acquire shares equal to the 46, 2% of the stock in joint control with F2i which holds the majority with shares for 53, 8%.

- Hera

Hera is a company that deals with gas, electric energy, water and waste treatment in the cities of Bologna, Ferrara, Forlì, Cesena, Imola, Faenza, Modena, Ravenna, Rimini and a portion of the Pesaro-Urbino province.

FSI investment in Hera was finalized on the 3 September 2012 and the main drive was the market expansion, which went through an M&A operation with the group AcegasAps, a competitor in the region of Veneto and Friuli. FSI approved this investment aiming at supporting a 3 years plan of investments of Hera (2012-

2015) for the final value of 1,5B€ and important deliverables like effectiveness, modernization in the domain of waste and water treatment.

- Ansaldo Energia

Ansaldo Energia is a company operating in the industry of energy production. The core business is development and production of gas turbines, gas power stations and maintenance of facilities. The company is also very active for nuclear and renewable energies.

On the 4 October 2013 FSI has signed a contract for the acquisition of 84,55% of Ansaldo Energia which corresponds to the whole shares held by the fund First Reserve (45%) and 39,55% of Finmeccanica, for an amount of approximately 657M€. FSI committed to acquire by the end of the 2017 the remaining 15% which is still with Finmeccanica for a value of approx. 147M€.

Through the Ansaldo Energia operation, FSI was meant to finance technological innovation for an Italian strategic company with significant impact on the sector and the aim to promote the stock exchange listing.

- Valvitalia

Valvitalia, company established in 2002, is one of the major players at international level for all flow-control devices in the field of oil & gas, power stations and shipyards.

The manufacturing sites of the company are almost all located in Italy, counting on a workforce of 1000 employees and almost 2000 external contractors and has an 85% export quota of its production. Although being a relatively young reality, Valvitalia is the outcome of an eight companies merging (Tormene, Vitas, Rotor, Thevignot, Vanadour, DVE, Tecnoforge e Broady).

On the 16 December 2013 FSI has subscribed a contract for investment and acquisition in cooperation with the ownership (Family Ruggeri, the founder of this business) for 151,2M€ out of which 1M for the increase of capital shares and 150,2M€ through a convertible debenture loan.

Should the loan be converted, FSI would hold a holding participation equal to 49,5%. FSI decides to participate Valvitalia with the aim of stabilizing the shareholding and allow the founder to maintain a growing trend of the business. One of the most important targets of FSI is to carry out niche acquisitions in order to expand the client base, grow stronger in geographical areas unexplored and proceed with a final stock exchange listing.

- SIA S.p.A.

Founded by Banca d'Italia in 1977 S**IA** is European leader in the design, creation and management of technology infrastructures and services for Financial Institutions, Central Banks, Corporates and Public Administration bodies, in the areas of cards, e-payments, network services and capital markets. SIA Group serves customers in 40 countries and operates through its subsidiaries in Hungary and South Africa. The company has offices in Milan, Rome, Macerata, Brussels and Utrecht.

On the 29 November 2013 FSI subscribed a contract of acquisition with the Banks of Intesa San Paolo and Unicredit to buy out their 42, 25% of SIA SpA for an amount of approx 204M€ to which another 77M€ was added to set up a holding totally controlled by FSI and which will be part of the shareholders in SIA. The investment has been agreed in order to reinforce the market positioning and support the company further expansion, the merging with other operators, also considering the fragmentation of the market. That is why SIA will have the possibility to develop itself in the international market by continuing to play a role of innovator and keep consolidating for a plan of stock listing[40].

[40] Further details on all operations carried out back in 2013 can be found at this link: http://www.fondostrategico.it/static/upload/fsi/fsi_bilancio-31-dicembre-2013_v-sito/fsi_bilancio-31-dicembre-2013_v-sito.pdf

- Gruppo Trevi

Trevi Group is the technological point-of-reference partner in the field of engineering projects for underground work and for research and development of water and energy resources. The Group makes development, research and design its underlying mission.

On the 30th July 2014 FSI subscribed an investment contract with Trevi Holding S.E. ("TH") which marked the entrance in the share capital of Trevifin as a minority shareholder. FSI has invested a total figure of 100,6M€ equal to the 16,852% of the company share capital.

FSI investment is finalized to the pursuit of a growth trend through acquisitions in the two main industries of Trevi, oil & gas.

In short, from May 2012 until early 2015 (without taking in consideration Hera which has been dismissed on May 2014) and Assicurazoni Generali (sold by Banca d'Italia), FSI has carried out investments for 1,3B€ buying out the following shares: 25% of Kedrion (100M€), 46,2% of Metroweb (200M€), 49,9% of SIA (242M€), 49,5%* of Valvitalia (151M€), 44,8% of Ansaldo

Energia (348M€, out of which 40% sold to Shanghai Electric Corporation on December 2014), 16,9% of Trevifin (101M€), 28,4 % of Inalca (165M€ invested by IQ MIIC, JV participated by the 50% from FSI Investments and the remaining 50% by Qatar Holding) and 23% of Rocco Forte Hotels (80M€).

To all the investments as above it must be added approx. 200M€ for additional operation in Kedrion, (50M€) and Ansaldo Energia (147M€).

Target	Data	Nuovo equity (€ mln)	Quota detenuta (%)	Criterio di investimento
Kedrion	Luglio 2012	100	25,1	Settoriale
Metroweb	Dicembre 2012	200	46,2	Settoriale
Ansaldo Energia	Dicembre 2013	348	44,8	Settoriale e dimensionale
Valvitalia	Gennaio 2014	151*	49,5**	Dimensionale
SIA	Maggio 2014/ Gennaio 2015	242	49,9	Settoriale
Gruppo Trevi	Novembre 2014	101	16,9	Dimensionale
Rocco Forte	Marzo 2015	~80	23,0	Settoriale
Inalca	Dicembre 2014	83***	28,4	Settoriale

** Investimento avvenuto in Equity per 1 milione di euro e Prestito Obbligazionario Convertibile per 150 milioni di euro.*

*** Pro-forma post conversione.*

**** Investimento effettuato attraverso IQ MIIC, la JV 50-50% costituita con Qatar Holding, per un valore complessivo pari a 165 milioni di euro.*

Fonte: FSI

Operations finalized by FSI 2012-2015.

All investments finalized show a certain degree of heterogeneity. For some of them FSI investment was aimed at endowing the country with technological infrastructures (material and intangible); in some other cases the nature of FSI investment has been primarily industrial and focused on further strengthening production, with a significant impact on both turn-over and employment..

The investments can therefore be recapped according to their objectives and outlook as shown in the chart here below.

	Kedrion	Metroweb	Ansaldo Energia	Valvitalia	SIA	Trevi	Rocco Forte	Inalca
Dotazione infrastrutturale strategica		√			√			
Potenziamento filiera			√	√			√	√
Internazionalizzazione	√		√	√	√	√		√
Innovazione	√		√		√			
Quotazione	√		√	√	√			
Crescita dimensionale (*)	√			√		√	√	√
Esternalità sistemiche		√			√			

Fonte: Elaborazione CDP

(*) In termini di occupati in Italia

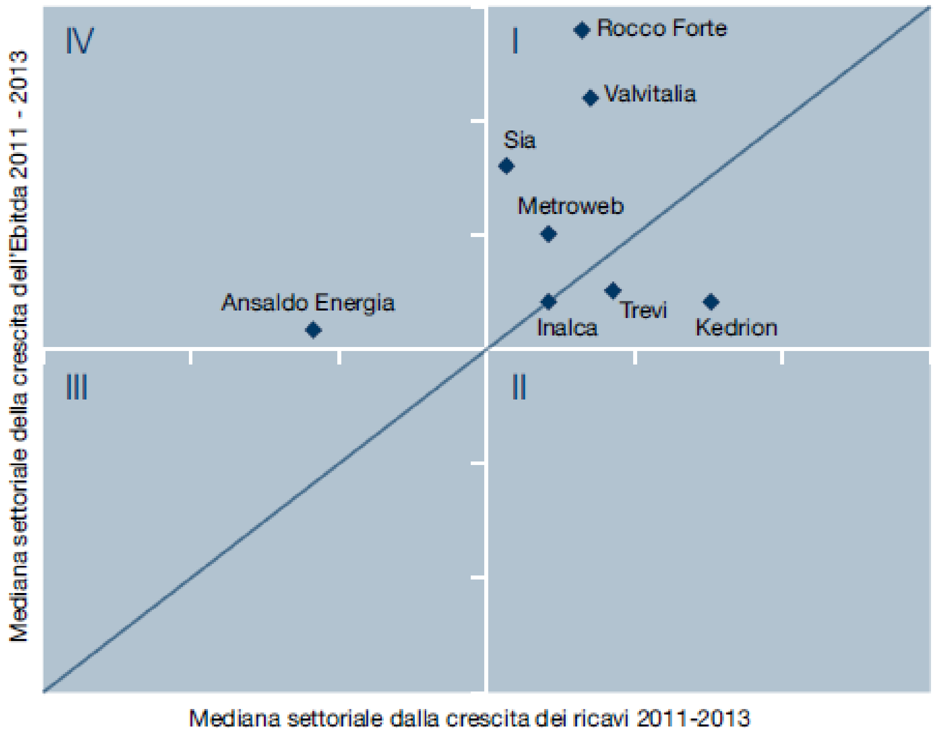
Targets and outlook of FSI investments.

4.7 Positioning of the companies within the FSI client base compared to the dynamics of the specific sectors

The industrial firms, to which FSI participates, other than being very active for export, present a high index of dynamicity from an operations point of view and the main economic indicators. If we compare these companies, performance based on EBIDTA and revenues to other companies in the same industries the outcome is surprisingly interesting. Another approach to avoid the possible consequence of short-term statistics is to measure the performance according to the average trend of the market.

The chart herein below show the following characteristics:

- Point of origin is the median of the growth rates in the period 2011-2013 for revenues and EBITDA in each single sector;
- The X-axis shows the divergence in percentage points of every firm compared to the sectorial dynamic, in terms of average growth of the revenues. On the left side you will find the companies which have experienced a growth rate at a lower level than the sector average, while on the right hand side you will find the companies which have experienced a higher level of growth;
- The Y-axis shows the divergence in percentage points of every firm compared to the sectorial dynamics, in terms of average growth of the EBITDA. On the top of the point of origin, there are the firms, which experienced a higher average growth of the EBIDTA with respect to the specific sector while below the point of origin you will find the firms that had a lower growth.



Fonte: elaborazioni CDP su dati Bureau van Dijk

Positioning of the companies within the FSI client base compared to the dynamics of the

Specific sectors in terms of revenues and EBIDTA

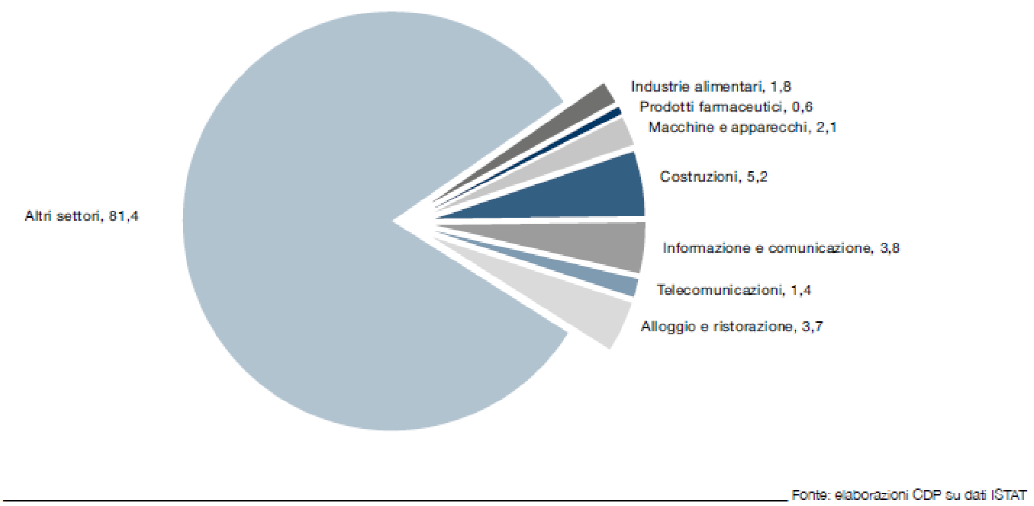
We will hence have four quadrants, functional for a static analysis in which all firms are positioned in consideration of their average growth rate of revenues and EBIDTA for the years examined 2011-2013 according to the following ratio:

- first quadrant: firms with an average growth rate higher than the specific sector of reference;
- second quadrant: firms with an average growth rate higher than the specific sector of reference, but with a lower index EBITDA;
- third quadrant: firms with an average growth rate lower in terms of revenues and EBIDTA than the specific sector of reference;
- forth quadrant: firms that show an average growth rate of the EBITDA higher than the specific sector of reference, but lower revenues.

4.8 Effects of investments on the added value

In 2013, the overall added value of the Italian productive system has been equal to 34B€ in the primary sector (agriculture, forestry and fishing), 339B€ in the sector of constructions and industrial production, 1.084B€ in the Services sector.

At present, the firms belonging to the client base of FSI operate in 7 industries: food (Inalca), pharmaceuticals (Kedrion), machinery and equipments (Ansaldo Energia e Valvitalia), Constructions (Trevi), Informatics and Communications (SIA), Telecommunications (Metroweb), Tourism (Rocco Forte). All those sectors have an overall inidence of approx. 20% of the Italian added value.



Sectorial distribution of the Italian added value and weigh of sectors for which FSI has invested, 2013 (percentage).

To estimate the impact of the activities on each benefit of every sector of the firms (which are part of FSI clients base) we proceeded by combining vertically all values generated by each firm with those originated before the production chain.

We have recorded the more significant impact in the sector of pharmaceuticals and machinery/equipments with a weight of related services in terms of added value for each specific sector equal to 1, 9% and 1, 7%.

After all, the total of most favourite of the firms enlisted in the FSI clients base contribute for the 0,2% to the national added value, as you can clearly see in the chart below attached.

Settore	Valore Aggiunto (€ mln)	VA dell'indotto (I e II livello di subfornitura) – peso % sul totale VA settoriale
Industrie alimentari	25.735	1,0
Farmaceutica	9.355	1,9
Macchine ed apparecchi	30.216	1,7
Costruzioni	76.390	0,5
Informazione e comunicazione	55.192	0,4
Telecomunicazioni	20.463	0,3
Alloggio e ristorazione	53.244	0,1
Tot. settori portafoglio FSI	270.595	0,6
Agricoltura, silvicoltura e pesca	33.699	0,8
Industria estrattiva	5.145	0,0
Altri settori – industria	192.168	0,1
Altri settori – servizi	955.196	0,1
Totale	1.456.803	0,2

Fonte: elaborazioni CDP su dati ISTAT

The impact of related services for those firms which are part of the FSI clients base.

4.9 Effects on employment

The overall employment which can be referred to the activities of the firms which are enlisted into the FSI investment program is equal to approximately 36,000 employed workforce, out of which about 25,800 are the figures of the related services (72% of the total workforce concerned). The indirect employment activated on the first level of the production chain of the assessed firms is equal to approx. 18,500 employed, whereas the remaining 7,300 are part of the second level of the production chain.

The outcome is fairly dissimilar. For example the investment in Metroweb shows a lower employment impact, but at the same time an increased percentage incidence on the overall related services employment rate (approx 86%).

Those firms which are traditionally deeply rooted in the Italian production system (like Mechanics) show significant employment levels: Ansaldo Energia Valvitalia promote a related services employment rate of approximately the 70% of the overall occupation. In both cases, the firms operate in connected production networks, where the support offered to the main contractor assures a positive outsourcing for all other companies which operate at the beginning of the production chain.

Another very important production chain strongly labour-intensive is the agro-alimentary. The effects of employment of Inalca are among the most significant compared to all other companies of the FSI client base. The incidence of indirect employment is 86% of the overall occupation while the related services occupation rate represent approximately the 36% of the overall FSI index.

The indirect occupation related to the investment in SIA and Kedrion represent approximately the 50% of the overall employment of interest, with a much more limited impact compared to other investments. We'd like to draw your attention to the fact that these two companies operate in a very hi-tech environment and that their production network is made of extremely productive contractors (especially in terms of workload) as a consequence of highly skilled human capital employed. Hence the combined effects result lower if compared with industries which are much more labour-intensive as mechanics. However Kedrion and SIA tend to employ high skilled personnel in Italy which is directly connected with the research & development drives of their work environment. As far as Kedrion is concerned we are facing a productive chain extremely international. This international inclination of Kedrion both on the final markets and those on the Logistics feed tends to hire manpower overseas, shrinking the occupation impact in Italy. Same conclusions can be made for Trevi where the indirect employment in Italy is equal to about 62% of all. Also in this case, the activities of this company have a strong international orientation, also considering that the majority of bids and working sites for people of Trevi are abroad. Thus, the indirect occupation is not only spread within the national boundaries, but also abroad.

Last case study assessed is Rocco Forte, although its contribution in terms of indirect occupation is very limited.

	Occupati in Italia					
	Totale	Occupazione diretta	Occupazione indiretta	Di cui Occ. Indiretta 1 livello di sub-fornitura	Di cui Occ. Indiretta 2 livello di sub-fornitura	% indiretta sul totale
Ansaldo Energia	**9.887**	2.925	6.962	5.027	1.934	70%
SIA	**3.418**	1.719	1.699	1.228	471	50%
Valvitalia	**2.710**	802	1.908	1.153	755	70%
Kedrion	**1.879**	894	985	765	220	52%
Metroweb	**507**	71	436	307	129	86%
Trevi	**3.853**	1.446	2.407	1.686	721	62%
Inalca	**13.084**	1.824	11.260	8.224	3.036	86%
Rocco Forte	**771**	593	178	114	64	23%
Totale	**36.108**	**10.274**	**25.834**	**18.503**	**7.331**	**72%**

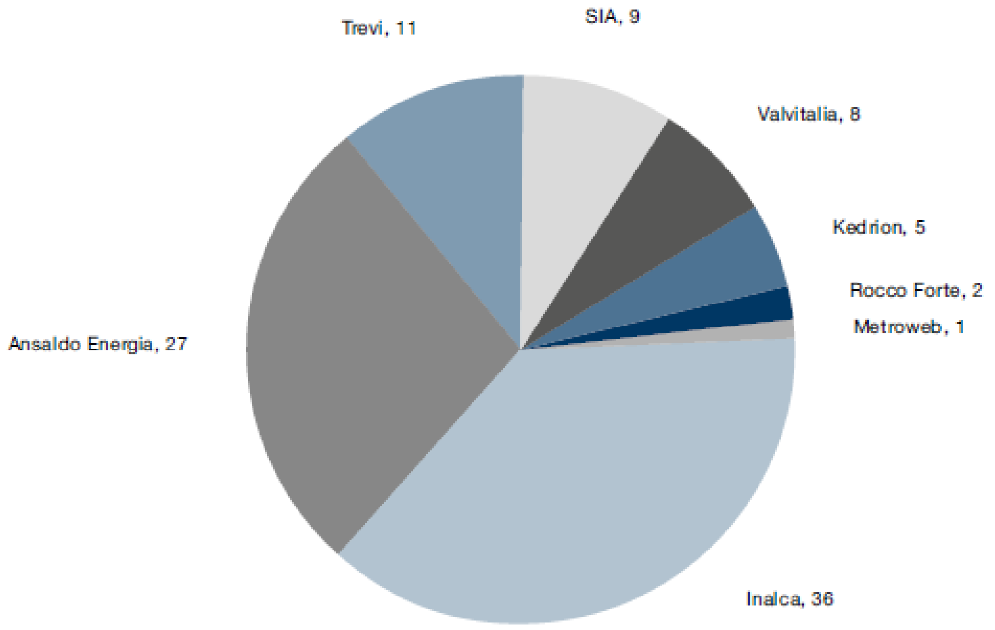
	ULA in Italia					
	Totale	Occupazione diretta	Occupazione indiretta	Di cui Occ. Indiretta 1 livello di sub-fornitura	Di cui Occ. Indiretta 2 livello di sub-fornitura	% indiretta sul totale
Ansaldo	**9.552**	2.910	6.642	4.822	1.820	70%
SIA	**3.102**	1.496	1.607	1.155	452	52%
Valvitalia	**2.543**	789	1.754	1.056	698	69%
Kedrion	**1.829**	876	953	741	212	52%
Metroweb	**479**	69	410	288	123	86%
Trevi	**3.612**	1.431	2.181	1.511	670	60%
Inalca	**14.867**	1.761	13.107	9.833	3.274	88%
Rocco Forte	**718**	547	171	110	62	24%
Totale	**36.701**	**9.876**	**26.825**	**19.515**	**7.310**	**73%**

Fonte: elaborazioni CDP

Nota: Per occupato si intende il numero di persone che indipendentemente dalla forma contrattuale offrono il proprio lavoro per la realizzazione di un processo produttivo. Le ULA rappresentano il numero medio annuo di unità lavorative a tempo pieno e sono considerate una proxy dell'intensità di utilizzo del fattore lavoro.Un dipendente part-time, ad esempio, è da considerarsi una frazione di ULA, mentre un dipendente full-time equivale a una unità piena di ULA. Considerando che, in alcuni casi (in particolare nel settore primario), un lavoratore autonomo può corrispondere a più di 1 ULA, in quanto impegnato per un numero di ore superiore a quelle previste nei CCNL, è possibile che il numero di ULA superi gli occupati.

Summary of occupation for FSI – Italy

The relevant impact on investments for FSI in terms of employment sees major effects for Inalca and Ansaldo Energia so di Inalca e Ansaldo Energia. Relatively high values are also appreciated for Valvitalia and SIA, while relatively lower for Kedrion, Rocco Forte and Metroweb, also considering its current perimeter while relatively lower for Kedrion, Rocco Forte and especially Metroweb.



Fonte: elaborazioni CDP

Impact of single companies on the overall esxternal service within FSI (%)

Conclusion

Sovereign Wealth Funds' (SWFs) are rather different from PEs for some relevant features, such as ownership, investment horizons, strategic positioning and objectives of investment.
They rather represent a new way of State intervention in economy different from State monopolies or State-owned enterprises that were widely used in past decades. Actually they can act as brokers between finance and politics and they can provide nationally-relevant enterprises with equity capital.
Last but not least FSI, although established recently in 2011 by the Italian Government, has had a significant impact on portfolio firms' performance.

Within Hoskisson's Strategic Map of PE firms[41], SWFs are placed among PEs with diversified in industry-focused firm portfolio and with preference on equity rather than debt.
Following Baldi and Ciferri (2016), some features that make SWF's different form PEs could be highlighted. SWFs are 'patient' long term investors that seek to reach both portfolio firm performance and economic policy goals (such as country's competitiveness, development and protection of strategic industrial sectors, attraction of foreign direct investments, buyer of last resort, promotion of entrepreneurship, …), unlike PEs that seek to reach returns on capital invested both in short and in long run.

An analysis of SWFs in Europe, although limited to only 5 SFs, points out empirically that: a) SFs actually work as long term investors; b) they aim at corporate value creation rather than short term return on capital; c) they often preserve existing top managers and support them with strategic governance advice that aim at seeking also economic policy goals. Because of the limited sample size, further research is needed.

A second empirical analysis on the Italian SWF called FSI shows that FSI, established with defensive purposes (protection of national relevant enterprises from foreign hostile takeovers), has become a competitive vehicle that can attract home and foreign capitals toward national industry. FSI portfolio firms show positive results in terms of value added and employment and they are able to produced positive spill-overs in their linked industries. Yet there is much heterogeneity among FSI portfolio firms.

[41] Hoskisson *et al.* (2013)

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