

The 2016 Preqin Sovereign Wealth Fund Review

1. Executive Summary

Sovereign wealth funds continue to capture attention as a result of their ever growing assets under management (AUM) and corresponding influence on global financial markets. Today, the total assets of sovereign wealth funds top \$6.51tn (Fig. 1.1), more than double the capital these entities represented in 2008, the year Preqin launched its first Sovereign Wealth Fund Review.

The Preqin Sovereign Wealth Funds League Table (page 19) shows that Norway's Government Pension Fund Global is still the largest sovereign wealth fund in the world, with \$835bn in AUM, an increase from \$818bn last year. Since the publication of the previous Preqin Sovereign Wealth Fund Review in April 2015, the assets of sovereign wealth funds collectively have grown by approximately \$200bn, despite the decline in commodity and oil prices and the global volatility seen over the past year, which caused some funds to lose assets (Fig. 1.2). While in previous years, growth in the sector had been partially driven by the creation of new sovereign wealth funds, two funds have dropped out of the main line-up: Indonesia and Mexico's depleted sovereign wealth funds have moved assets elsewhere. In the case of Mexico's Oil Income Stabilization Fund, the fund moved

its assets to set up another sovereign wealth fund for the country (Fondo Mexicano del Petróleo), with the investment policy yet to be formed and all assets to be transferred to the new fund. The growth in assets of sovereign wealth funds has been driven by continued funding from governments and reserves as well as from investment returns generated by these investors in their continued hunt for long-term yield in a low interest rate environment.

Despite this, future sovereign wealth funds continue to be planned. Chapter 18 looks at the many countries around the world establishing or looking to establish new state-owned investment vehicles; one such 'emerging' sovereign wealth fund is Israeli Citizen Fund, which looks to safeguard the revenues made from windfall natural gas and expects to start operation in 2016 or 2017.

Sovereign Wealth Funds Investing in Traditional and Alternative Assets

Fig. 1.3 shows that sovereign wealth funds invest in a wide range of asset classes, including traditional and alternative assets, and illustrates the importance and prominence of these large, state-owned investment vehicles in such markets. Fixed

Fig. 1.1: Aggregate Sovereign Wealth Fund Assets under Management (\$tn), December 2008 - March 2016

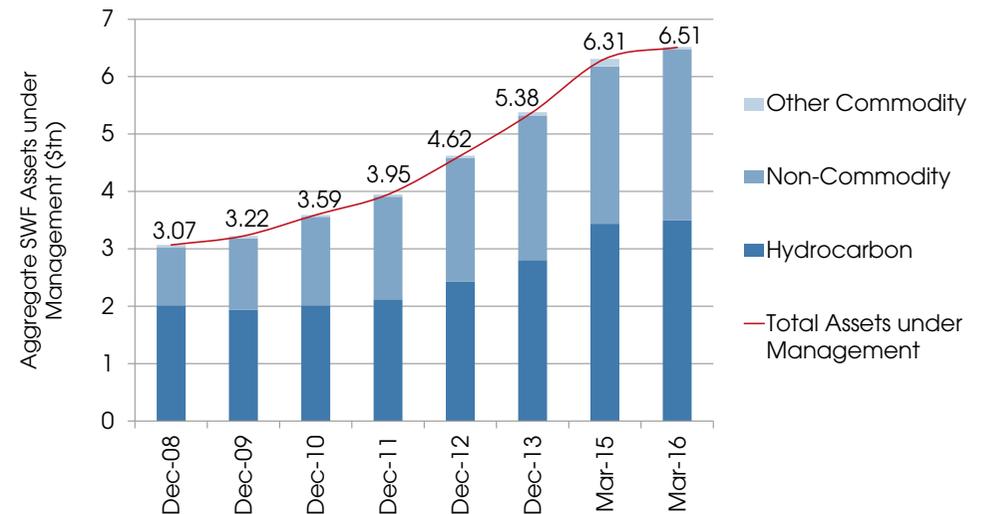
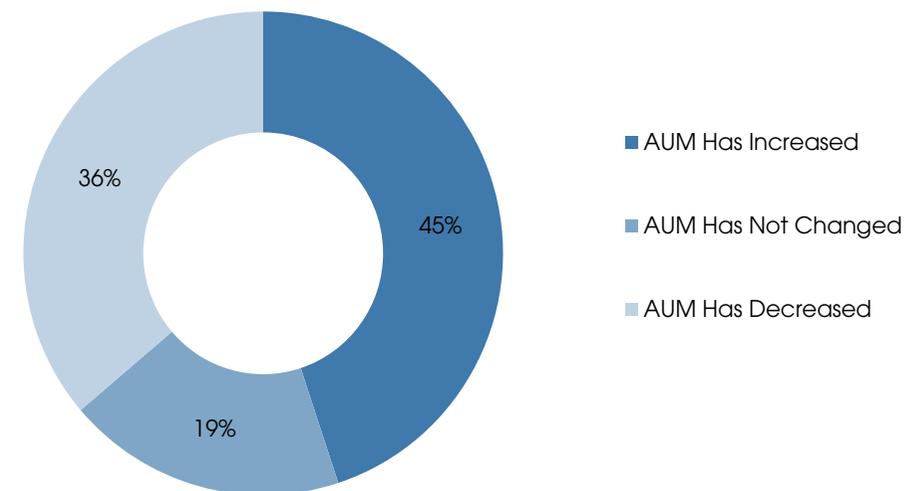


Fig. 1.2: Sovereign Wealth Funds that Have Seen a Change in Assets under Management (AUM), 2015-2016



income is the most prominent asset class, invested in by 82% of sovereign wealth funds. While this proportion appears to have dropped since last year, this was primarily caused by the depleted Government Investment Unit and Oil Income Stabilization Fund falling from the list, both of which were allocators to the asset class.

Notably, Fig. 1.3 shows that the proportion of sovereign wealth funds investing in real estate and infrastructure has steadily grown over recent years, with 62% of sovereign wealth funds allocating to each asset class as of early 2016. Chapters 13 and 14 take a closer look at sovereign wealth funds investing in real estate and infrastructure, and examines what makes them attractive to this type of institutional investor. PwC's Craig Hughes takes a look at real estate investments among sovereign wealth funds in Chapter 12, and explores the evolution of the asset class in terms of allocation and sophistication through co-investments and other arrangements.

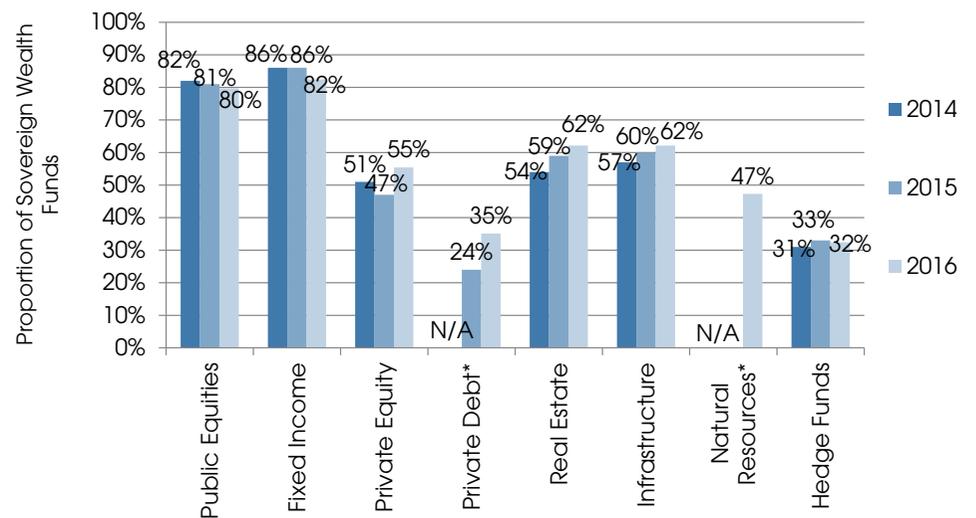
Private equity and private debt have also seen a growing proportion of sovereign wealth funds investing in each asset class, illustrative of the increasing sophistication of these institutions in constructing their investment portfolios and the attraction of such asset classes to achieve their investment objectives. Chapters 10 and 11 take a closer look at the data to identify trends among sovereign wealth funds investing in private equity and private debt. A growing proportion (35% in 2016) of sovereign wealth funds invest in private

debt, which is gaining traction as a fully distinct alternative investment. Following the aftermath of the Global Financial Crisis, which led to changes in traditional bank lending practices, opportunities have arisen for non-bank lenders, such as debt fund managers, to step up as providers of credit. As sovereign wealth funds become accustomed to this new investment, as well as the potential it can offer for strong risk-adjusted returns, we can expect more of these investors to take their first steps into the private debt asset class than have in recent years.

Although many sovereign wealth funds derive their capital from revenues from the extraction of natural resources (such as oil and natural gas), a significant proportion (47%) of sovereign wealth funds invest in the natural resources asset class (Fig. 1.3). These funds recognize the value of additional natural resources investments not just in energy but also in agriculture/farmland, metals & mining, timberland and water opportunities, as detailed in Chapter 16, which looks at the types and characteristics of sovereign wealth funds that invest in natural resources and their strategic preferences in the asset class.

To a lesser extent, sovereign wealth funds are active in hedge funds, as detailed in Chapter 17. Hedge funds, with their shorter investment horizons than other alternative assets, may not be suitable for those sovereign wealth funds that seek alternatives that can provide superior returns over a long cycle. However, with oil

Fig. 1.3: Sovereign Wealth Funds Investing in Each Asset Class, 2014 - 2016



*Please note: Preqin has only been collecting private debt information on sovereign wealth funds since 2014, and natural resources data since 2015.

prices falling and many sovereign wealth funds looking to withdraw capital from their portfolios, liquidity may become more important to these entities. Hedge funds can offer a liquid, alternative return stream; we may see more sovereign wealth funds rebalance in the asset class's favour in order to diversify into an asset that can offer risk-adjusted returns and regular access to capital. Less than a third (32%) of sovereign wealth funds currently invest in hedge funds.

Other Sovereign Investors and Emerging Sovereign Wealth Funds

For the first time, the Preqin Sovereign Wealth Fund Review looks at the

significance of other sovereign investors and emerging sovereign wealth funds worldwide in Chapter 18. While these different types of entities are not featured in the main line-up of sovereign wealth funds in this publication, the influence and potential impact of these investors are substantial and worthy of note. Parallels between sovereign wealth funds and large global investors (such as asset managers and pension funds) have been drawn by many observers, citing their array of similarities which include large pools of capital under management, their sophisticated and wide range of investment preferences (such as investment in alternatives) and their autonomous nature; these sovereign investors attract just as much attention as sovereign wealth funds.

Challenges for Sovereign Wealth Funds

Despite the growth in assets and the continued influence of these state-owned investment vehicles, sovereign wealth funds still face significant challenges. PwC explores some of these issues in Chapter 6, looking at how sovereign wealth funds can look to prolong their lifespan and mitigate the risk of continuing low oil prices and commodity depletion. Chapter 15 explores how sovereign wealth funds can invest to adjust their allocations and mandates in times of economic volatility and decline in commodity prices.

The 2016 Preqin Sovereign Wealth Fund Review – More Sovereign Wealth Funds, More Asset Classes, More Analysis

Preqin's first Sovereign Wealth Fund Review launched in 2008 in response to the need for more information on these secretive entities and their investments in the private equity and private real estate sectors. Following the success of this inaugural review of the industry, Preqin received hundreds of enquiries from professionals working in all areas of finance and research that were seeking a source of data and information on the more general strategies of sovereign wealth funds. With our dedicated research team based across the globe, Preqin was able to do just that, and in this, our eighth and most comprehensive edition yet, we look across the entire investment portfolios of sovereign wealth funds.

New for 2016, Preqin has added natural resources to the line-up of alternative asset classes covered in the Review, as well as more analysis and in-depth commentary on this important sector to help our clients gain the best intelligence on sovereign wealth funds. Preqin's analysis covers:

- Public Equities
- Fixed Income
- Private Equity
- Private Debt
- Real Estate
- Infrastructure
- Natural Resources
- Hedge Funds

The influence of sovereign wealth funds is undeniable; with total assets topping \$6.5tn they have reached a size comparable to that of the entire alternative assets industry, which Preqin today estimates at approximately \$7.4tn.

With more sovereign wealth funds, more assets, more investments and more information than ever before, the 2016 Preqin Sovereign Wealth Fund Review is undoubtedly the most comprehensive review of the industry ever produced.



The 2016 Preqin Sovereign Wealth Fund Review

A comprehensive guide to sovereign wealth funds

Contents

1. Executive Summary	5	13. Sovereign Wealth Funds Investing in Real Estate	45
2. Data Sources & How to Use this Book	9	Sovereign wealth funds investing in real estate by total assets, source of capital, route to market, location, regional and strategy preference; global outlook for sovereign wealth funds investing in real estate	
3. Keynote Address - PwC	11	14. Sovereign Wealth Funds Investing in Infrastructure	49
4. Sovereign Wealth Funds Overview	13	Sovereign wealth funds investing in infrastructure by total assets, regional preference, route to market and project stage; sovereign wealth funds investing in economic and social infrastructure; global outlook for sovereign wealth funds investing in infrastructure	
Purposes of sovereign wealth funds; increasing prominence of sovereign wealth funds over time; sources of capital; breakdown of sovereign wealth funds by total assets and location; sovereign wealth funds and alternative assets; outlook for sovereign wealth funds		15. The Impact of Low Oil Prices on Sovereign Investors' Asset Allocation and Governance - PwC	53
5. Sovereign Wealth Funds League Table	19	Sovereign wealth funds in order of total assets under management	
6. From Accumulation to Depletion: For How Long Can a Sovereign Wealth Fund Be Prolonged? - PwC	21	16. Sovereign Wealth Funds Investing in Natural Resources	55
7. Sovereign Wealth Funds Investing in Public Equities	25	Sovereign wealth funds investing in natural resources by location, regional and strategy preference	
Sovereign wealth funds investing in public equities by total assets, types of equities sought and regional preference; global outlook for sovereign wealth funds investing in public equities		17. Sovereign Wealth Funds Investing in Hedge Funds	59
8. Sovereign Wealth Funds Investing in Fixed Income	29	Sovereign wealth funds investing in hedge funds by location and regional, structural and strategy preference; global outlook for sovereign wealth funds investing in hedge funds	
Sovereign wealth funds investing in fixed income by regional preference, bond type and grade; global outlook for sovereign wealth funds investing in fixed income		18. Other Sovereign Investors and Emerging Sovereign Wealth Funds	63
9. Sovereign Wealth Funds in Private Equity: Exploring New Ventures - PwC	33	Sovereign wealth funds and other sovereign investors; other sovereign investors in alternatives; emerging sovereign wealth funds; profiles of emerging sovereign wealth funds; emerging sovereign wealth funds by location	
10. Sovereign Wealth Funds Investing in Private Equity	35	19. Profiles of Sovereign Wealth Funds	71
Sovereign wealth funds investing in private equity by total assets, regional and strategy preference; co-investments and separate accounts; global outlook for sovereign wealth funds investing in private equity		Detailed profiles of 74 sovereign wealth funds	
11. Sovereign Wealth Funds Investing in Private Debt	39	- North America (p.71)	
Sovereign wealth funds investing in private debt by total assets, source of capital, regional and strategy preference; global outlook for sovereign wealth funds investing in private debt		- Latin America & Caribbean (p.123)	
12. Evolution of Risk Appetite for Real Assets among Sovereign Wealth Funds - PwC	43	- Europe (p.133)	
		- Middle East (p.159)	
		- Africa (p.217)	
		- Asia (p.237)	
		- Australasia (p.303)	
		20. Index	319
		Sovereign wealth funds listed alphabetically	
		Sovereign wealth funds listed by country	
		Figure index	

15. The Impact of Low Oil Prices on Sovereign Investors' Asset Allocation and Governance - PwC*

For over a decade the assets of sovereign investors (SIs) have grown significantly. For many this is a result of substantial state oil and other commodity revenues. The leadership at funds such as Norges Bank Investment Management (NBIM), Abu Dhabi Investment Authority (ADIA) and Kuwait Investment Authority (KIA) have had the luxury of focusing on the deployment of inflows and not having to manage redemptions. However, the dramatic fall in the price of oil to below \$30 per barrel in January 2016 presents a new environment as commodity-dependent states face the need to address fiscal deficits and have turned to SI assets. In this article we discuss the challenges that this causes and consider how SIs may need to address their investment governance and asset allocation.

Challenging Environment for Sovereign Investors

For many of the commodity-driven SIs, the past decade has seen a period of steady inflows from oil revenues, where asset allocation decisions have been made with relative ease to grow the portfolios in line with a determined strategic asset allocation. New inflows could be used to easily rebalance portfolios or take timed dynamic

allocations. Throughout this period, SIs also used inflows, combined with their long-term horizon, to create diversified portfolios with increasing allocations to illiquid asset classes, namely private equity, real estate and infrastructure. However, low oil prices have resulted in fiscal deficits as governments have been unable to reduce spending fast enough in response to the rapidly declining revenues.

In response, a number of governments – in the Middle East, Central Asia and Russia, among others – have looked to the assets of SIs to resolve deficits in a rapid and effective way.

Where dedicated Stabilization Funds exist, this scenario is manageable as such funds have a clear mandate to provide in periods of suppressed state revenues or times of volatility. However, many SIs have been designed with longer term mandates to support a country's development, often classified as Development Funds, or to focus on long-term goals (e.g. pensions of future generations or long-term growth), which we refer to as Capital Maximization Funds. State withdrawals from either are in clear contradiction of their long-term mission and objectives. However, given the illiquid and strategic nature of Development

Fund assets, more demands for cash have been directed at the liquid assets of Capital Maximization Funds. It is the challenges facing these funds that we will consider in more detail.

Mission Drift and Disrupted Investment Strategy

Much has been written on the importance of independence when creating Capital Maximization Funds. The idea is typically to protect assets from being used for short-term fiscal spending and allow them to concentrate on their mission and investment objectives of preserving wealth and growing capital for future generations. However, in times of severe stress, such as the current period, this independence is being questioned as states are drawing on SI assets. This can create significant ambiguity around objective setting, management and accountability within a fund as risk/return targets are disregarded in place of short-term liquidity needs.

As these funds are not designed to provide vast amounts of funds to governments, when called to, they must sell their positions in their most liquid assets, predominately public equities and government bonds. These moves disrupt a fund's asset

allocation and can quickly result in an unintentional and significant overweight to illiquid assets. This overweight can be amplified by falls in stock markets, which in part may be caused by significant selling by large SIs. Selling bonds also reduces downside scenario hedging in a portfolio, causing risk management issues as liquidity and investment risks are all increased.

CEOs and CIOs have been forced to adapt to sudden redemption requests; however, the conflict in mandate leaves a clear accountability issue as managing rapid portfolio redemptions may not have been factored into a fund's objectives, investment strategy and measures of success. These additional issues all compound the negative impact felt by SIs and their management teams.

Reviewing Investment Governance and Asset Allocation

The source of the disruption caused by states' requirements to withdraw assets is the fact that these funds were not designed to function in this way, and hence go against their mission. If these funds are expected to serve this purpose going forward, their mission and objectives need to be adapted to accommodate for increased liquidity

*Michel Meert and Matthew Craddock

13. Sovereign Wealth Funds Investing in Real Estate

Real estate remains a key asset class that attracts vast investment from sovereign wealth funds, largely due to the nature of real estate investments; long-term commitments across national and international markets are aligned with the long-term investment horizons of these investors. However, investment in the asset class does not come without hurdles, and even the largest investors can face challenges when accessing real estate markets.

The proportion of sovereign wealth funds that invest in real estate has increased by three percentage points from the previous year, with 62% of these investors active in the asset class (Fig. 13.1). This proportion includes some of the world's largest sovereign wealth funds, such as Government Pension Fund Global, Kuwait Investment Authority and GIC, which all have over \$19bn allocated to real estate. Just under a third (32%) of sovereign wealth funds do not invest in real estate, which could be due to restrictions in government mandates preventing them from doing so. The Kevin P. Reilly Sr. Louisiana Education Quality Trust Fund is one such investor that does not invest due to state laws restricting its investments to only equities and fixed income.

Three percent of sovereign wealth funds are currently considering investment in the asset class. This includes Government Pension Fund Norway (GPFN), which recognizes that the illiquidity involved in real estate investments and the value of diversified, inflation-hedged returns are well suited to GPFN, a fund with long-term horizons and limited short-term liquidity needs. However, as of early 2016, GPFN was yet to have made its maiden investment to the asset class.

As Fig. 13.2 shows, 61% of sovereign wealth funds have a target allocation to real estate of 10% or more of their total assets, representing the importance of the asset class for many sovereign wealth funds' investment portfolios. Alberta Heritage Savings Trust Fund, for example, currently allocates 21.3% of its total assets to the asset class, which is above its target allocation of 20%. The majority of its real estate portfolio is dedicated to direct property investments, but it also has exposure to private real estate funds.

Fig. 13.1: Sovereign Wealth Funds Investing in Real Estate

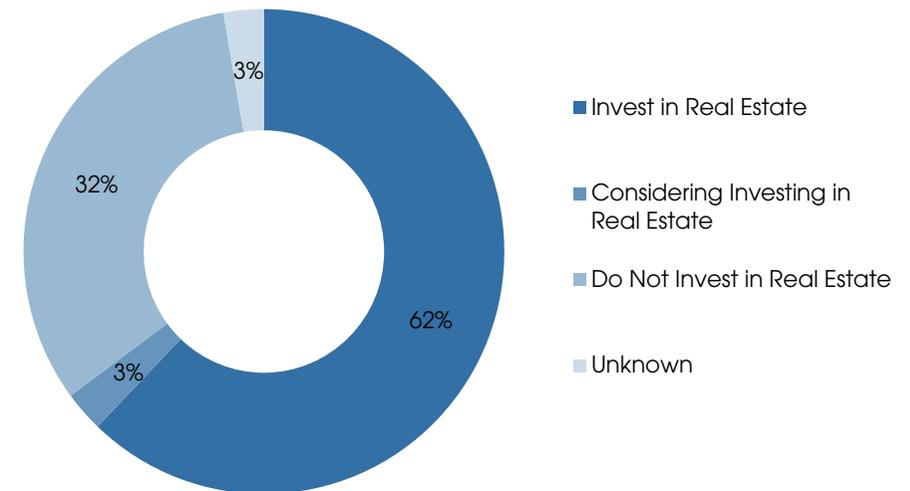
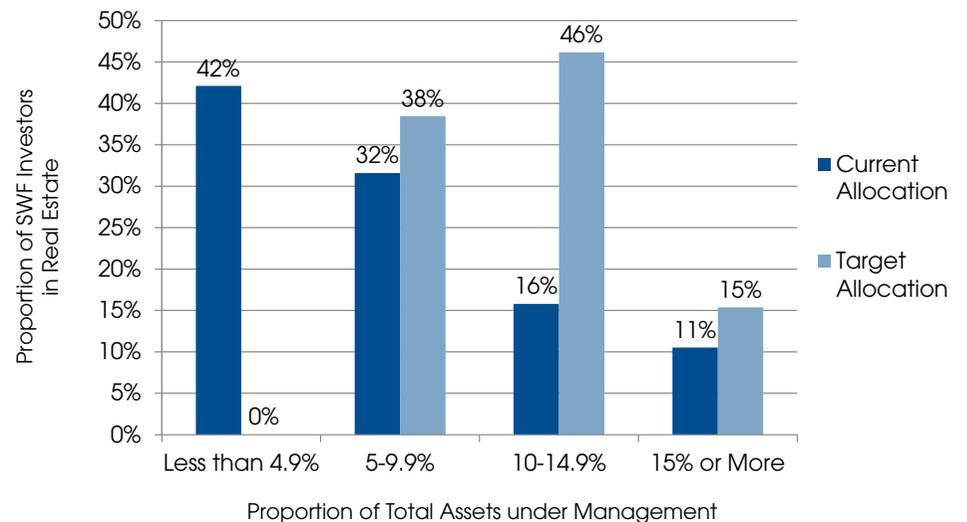


Fig. 13.2: Sovereign Wealth Funds' Current and Target Allocations to Real Estate by Proportion of Total Assets under Management



Assets under Management

Typically, the largest sovereign wealth funds invest in public equities, as demonstrated by Fig. 7.2. All sovereign wealth funds with more than \$50bn in assets under management (AUM) invest in public equity markets, compared with just 40% of funds with AUM of less than \$1bn. An example of these smaller funds is Sovereign Fund of the Gabonese Republic, which invests in public equities that have a special historical connection with the country and a strategic, economic and social interest with the Gabonese Government.

Types of Equities Sought

The largest proportion (90%) of sovereign wealth funds investing in public equities have a preference for large cap public companies (Fig. 7.3). The relative stability of returns and lower risk profile associated with such established securities are attractive features for the more conservative sovereign wealth fund investor. Significantly, 61% of sovereign wealth funds invest in small cap companies, which offer higher growth potential and the prospect of outsized returns, providing opportunities for sovereign wealth funds to profit from under-recognized and undervalued equity investments. Over half (51%) of sovereign wealth funds investing in equities have indicated a preference for capturing the performance of an index or gaining exposure to companies via an index. One notable example of this is Kevin P. Reilly Sr. Louisiana Education Quality Trust Fund, which invests in public equities

via an indexed fund, which it believes provides better risk-adjusted returns than individual holdings.

Regional Preference

Over three-quarters of sovereign wealth funds have a preference for global equities, as illustrated in Fig. 7.4. For unique investors such as sovereign wealth funds, which typically manage a nation's vast wealth, a focused investment in public equities could negatively impact and unbalance the stock markets of investee nations, which is why a global investment mandate is generally more suited to this type of investor. Additionally, sovereign wealth funds are presented with a wider variety of investment opportunities, subsequently reducing risk through global diversification. One such sovereign wealth fund that actively seeks global exposure through its public equities allocation is New Mexico State Investment Council, which invests in equities domestically and internationally, with the asset class making up the largest allocation of its investment portfolio.

Europe and North America are favourable destinations for sovereign wealth funds investing in public equities, with 76% and 73% of funds investing in these regions respectively. Such regions offer attractive investment opportunities, enabling investors to benefit from exposure to developed economies with relatively robust political stability and high levels of market transparency. China's State Administration of Foreign

Fig. 7.3: Sovereign Wealth Funds Investing in Large, Mid and Small Cap and Indexed Public Equities

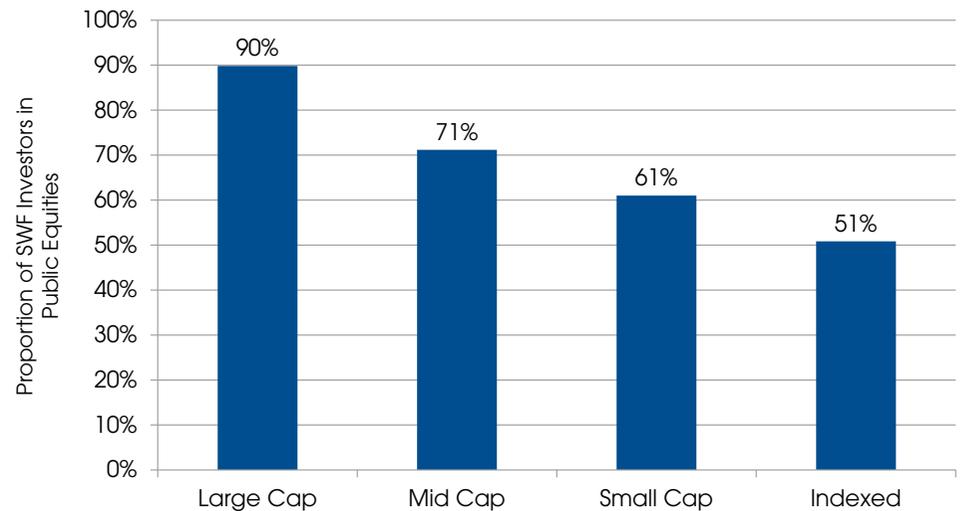
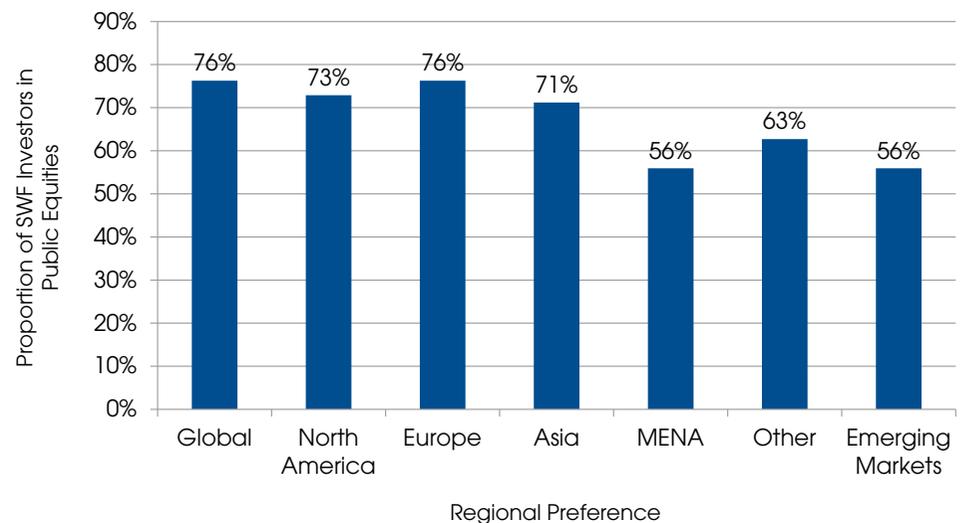


Fig. 7.4: Regional Preferences of Sovereign Wealth Funds Investing in Public Equities



Fundo Soberano de Angola

Year Founded: 2012

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Fundo Soberano de Angola (FSDEA) was legally ratified and officially established in 2012. The sovereign wealth fund was initially proposed in 2008 as Angola looked to create a fund to promote growth, prosperity and social and economic development in the country.

FSDEA is headquartered in Luanda, the capital of Angola, and aims to create a diversified investment portfolio. Through this it will aim to pursue investments that generate long-term and sustainable financial returns in order to promote social and economic development for the people of Angola.

The FSDEA is a sovereign investment fund managed by an autonomous board of directors.

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Source of Capital: Hydrocarbon **Total Funds under Management:** \$4,900mn

Portfolio Allocation:	Current (%)	Target (%)
Equities	✓	✓
Fixed Income	✓	✓
Private Equity	✓	✓
Private Debt	✓	✓
Real Estate	✓	✓
Infrastructure	✓	✓
Natural Resources	✓	✓
Hedge Funds	×	×
Other Investments	✓	✓

Strategy

FSDEA's investment strategy is founded on its commitment to Angola's social and economic development. It aims to invest across Africa and globally, with a particular focus on investments in the domestic market, building Angola's infrastructure and healthcare system and creating opportunities for the citizens of Angola. One of the main goals of FSDEA is job and wealth creation within Angola. It also centres its investments on supporting Sub-Saharan Africa's economic development and to benefit from the strong growth of the region, as an investor.

The sovereign wealth fund currently invests the majority of its portfolio in fixed income and equity instruments and gains significant exposure to the infrastructure and real estate asset classes. FSDEA's long-term plan is to allocate approximately one-third of its investment portfolio to fixed income instruments and equity investments. The sovereign wealth fund also plans to allocate another third of its portfolio to alternative investments, predominantly in real estate, agriculture, mining and infrastructure sectors in Angola and across other African markets to nurture sustainable domestic and regional growth. The remainder will be allocated to cash and fixed income instruments issued by sovereign agencies, global and emerging market equities as well as other alternative investments around the globe.

At the end of 2014, FSDEA established its own research unit in response to the scarcity of quality data on Africa in the public domain. The research unit consists of eight investment analysts working in cooperation with the Angolan Government and specialized academics to generate regular intelligence on macroeconomic issues, as well as sector- and country-specific analysis. This new unit represents the start of a wider effort to develop research-based investments that are in line with its commitment to preserve capital, maximize long-term returns and develop commercial infrastructure projects that provide benefits for Angolan citizens.

In April 2015, FSDEA entered the private equity asset class and has made subsequent investments to its five dedicated and self-created investment funds. The vehicles will focus particularly on mining, timber, agriculture, healthcare and structured capital through a separate mezzanine fund. In addition, the fund announced its intention to create a commercial entity focused on targeting domestic microbusiness ventures and providing guidance to management on business strategy and success.

Equities

FSDEA allocates to public equities, with a preference for investing in equities issued within G7 countries. The fund plans to further diversify its investment portfolio and continue investing in global public stocks.

Sample Fund Investments

Fund Name	Vintage	Fund Type	Location Focus	Size (mn)	Committed (mn)
AMP Capital Irish Life Infrastructure Fund	2011	Infrastructure	Europe		250 EUR
NTR Wind 1 Fund	2016	Infrastructure	Europe	250 EUR	

Natural Resources

ISIF is an active investor in natural resources. The fund seeks diverse exposure to the asset class, targeting commitments to energy, agriculture and water funds.

Over the medium and long term, ISIF will be required to target investments in water and waste sectors in order to support the development of the country. ISIF will also target energy investments, with a significant concentration on renewable energy investments.

Natural Resources Preferences

Direct	✓	Global	×
Listed	×	North America	×
Unlisted	✓	Europe	✓
Co-Investor	-	Asia	×
Separate Account	-	MENA	×
		Other	×
Agriculture/Farmland	✓	Emerging Markets	×
Energy	✓		
Metals & Mining	-	Emerging Managers	×
Timberland	-		
Water	✓		
Fund of Funds	×		

Hedge Funds

ISIF is an active investor in hedge funds as part of its alternative investment strategy. It currently allocates approximately 3.9% of its total assets under management to hedge funds.

ISIF invests in the asset class through direct single-manager hedge funds. It seeks investment exposure to Europe. When selecting new managers, it will not consider seeding funds or investing in emerging managers.

As of Q4 2015, ISIF had no plans to add new hedge fund investments to its portfolio in the next 12 months. It expected to remain invested with its existing managers.

Hedge Fund Preferences

Direct	✓	Global	×
Fund of Funds	✓	North America	×
Managed Accounts	×	Europe	✓
		Asia	×
Equity Strategies	-	MENA	×
Macro Strategies	-	Other	×
Event Driven Strategies	-	Emerging Markets	×
Credit Strategies	-		
Relative Value Strategies	-	Emerging Managers	×
Multi-Strategy	-		
CTA	✓		
Niche Strategies	-		

Sample Firm Investments

Firm Name	Headquarters	Funds Offered	Firm AUM (\$mn)
Bridgewater Associates	US	Hedge Fund	150,663
Fursa Alternative Strategies	US	Hedge Fund	600
Goldman Sachs Asset Management	US	CTA, Hedge Fund	15,200
J.P. Morgan Alternative Asset Management	US	Fund of Hedge Funds	12,650

External Investment Managers

Firm Name

Bridgewater Associates

Notable Holdings

Investment Name	Investment Location	Stake (%)
Irish Water	Ireland	-
Malin Corporation plc	Ireland	15.0

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British Columbia Investment Management Corporation (bcIMC) provides professional investment fund management services to clients including public sector pension funds, the Province of British Columbia, provincial government bodies and publicly administered trust funds. bcIMC manages more than 40 pooled investment funds across eight major asset classes.

The investment activities help to finance the retirement benefits of more than 379,000 residents of British Columbia, including college instructors and staff, municipal and healthcare workers, fire-fighters, police officers, public servants and teachers, the staff and faculty at the University of Victoria, employees of the Workers' Compensation Board, BC Rail, BC Hydro and members of the Legislative Assembly. Approximately 70% of bcIMC's assets are managed internally by investment professionals hired by the corporation. The remaining 30% is managed by external fund managers.

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Assets under Management: CAD 130,000mn **Allocation to Alternatives:** CAD 32,370mn

Portfolio Allocation:	Current (%)	Target (%)
Private Equity	4.4	6.0
Private Debt	0.3	0.3
Real Estate	14.6	✓
Infrastructure	4.5	✓
Natural Resources	1.0	✓
Hedge Funds	x	x

Sample Future Plans

bcIMC is looking to invest CAD 1.2bn across six to 12 private equity funds with existing managers. It will also look to invest in the natural resources industry, with plans to make up to five new direct investments. bcIMC is also looking to commit to two private debt funds. It will continue to invest in real estate and infrastructure.

Caisse de dépôt et placement du Québec

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Caisse de dépôt et placement du Québec (CDPQ) was established in 1965 and actively manages funds on behalf of its depositors in Québec, which are principally public and private pension funds and insurance plans. In 2006, CDPQ created an investment division in addition to its existing private equity division, which includes the chief strategist's team, equity markets, fixed income, hedge funds and real estate groups.

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Assets under Management: CAD 240,800mn

Portfolio Allocation:	Current (%)	Target (%)
Private Equity	10.5	16.1
Private Debt	✓	✓
Real Estate	✓	✓
Infrastructure	5.2	✓
Natural Resources	✓	✓
Hedge Funds	0.2	✓

Sample Future Plans

By 2018, CDPQ plans to double the size of its infrastructure portfolio. CDPQ favours direct investment in infrastructure over funds. It plans to continue to invest in private equity, private debt, real estate, natural resources and hedge funds.

2016 Preqin Sovereign Wealth Fund Review

The 2016 Preqin Sovereign Wealth Fund Review is our largest and most comprehensive review of sovereign wealth funds and their investment activity yet, featuring detailed profiles for 74 sovereign wealth funds worldwide. Produced in association with PwC, this year's edition has been fully updated, with more content than ever before. The Review contains exclusive information gained via direct contact with sovereign wealth funds and their advisors, plus valuable intelligence from filings, financial statements and hundreds of other data sources.

Highlights of this year's edition include:

- Overview of the SWF market
- Key insights into SWF activity from PwC
- Full profiles for each SWF
- In-depth analysis on key trends in SWF activity by asset class and region
- League table of top SWFs



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