The 2014 Preqin Sovereign Wealth Fund Review

1. Executive Summary

Sovereign wealth funds, the secretive and exclusive subset of the institutional investor community, continue to make headline news in 2013 due to their large assets and growing influence over the global financial community. The total assets of sovereign wealth funds have been steadily increasing since Preqin launched its first Sovereign Wealth Fund Review back in 2008. For the first time, assets of these sovereign wealth entities have surpassed the $5tn mark, with total assets estimated at $5.38tn as of October 2013; sovereign wealth funds have gained more than $750bn in additional assets since 2012. This represents the largest jump in total assets of sovereign wealth funds since Preqin started its annual study of the universe.

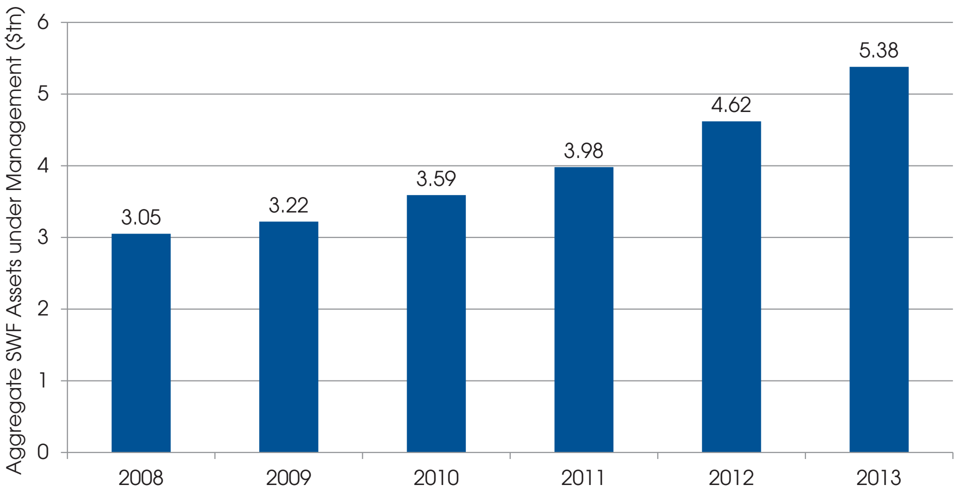
Growth in sovereign wealth fund assets under management can be attributed to two major factors: the first is the large number of new sovereign wealth funds that have been formed over the past couple of years; the second is the growing assets of pre-existing sovereign wealth funds.

Newly Established Sovereign Wealth Funds

The 2014 Preqin Sovereign Wealth Fund Review profiles 72 sovereign wealth funds, ten more than last year's edition. Over the past year we have seen some notable sovereign wealth funds come into existence and begin to make investments; for instance, Western Australian Future Fund, established in December 2012 with AUD 1bn, is designed to fund future generations of Western Australians by setting aside and accumulating a portion of the State's revenue from mineral resources. Fundo Soverano Angolano was initially discussed in 2008, but was finally established in October 2012. In its most recent investment policy announcement in Q2 2013, Fundo Soverano Angolano stated its intention to build a diversified portfolio, which would include investment in equities, bonds, real estate and infrastructure.

As well as new sovereign wealth funds being established from scratch, others have undergone significant changes. BPIFrance was formed in 2013 following a merger between Caisse des Dépôts, the former sovereign wealth fund Strategic Investment Fund (SIF), and OSEO. It is designed to support small- and medium-sized businesses and provide seed capital to companies and industries it feels will become market leaders. BPIFrance has $25.8bn in assets under management.

Fig. 1.1: Aggregate Sovereign Wealth Fund Assets under Management, 2008-2013



Growing Assets of Existing Sovereign Wealth Funds

Since 2012, 63% of the sovereign wealth funds tracked by Preqin have grown in assets under management. This is as a result of injections of capital from the governing bodies of the sovereign wealth funds, as well as growth due to investment activity.

In the immediate aftermath of the credit crisis, several sovereign wealth funds saw their assets depleted as a result of government withdrawals to balance governmental fiscal shortfalls. However, over the past two years we have seen capital being injected into sovereign wealth funds in order to ensure security for future generations funded by the reserves created today. For instance, the North Dakota Legacy Fund, which is funded by 30% of the revenue generated by oil and gas gross production and oil extraction taxes and gas from the region, is currently in its accumulation phase. The Legacy Fund is not permitted to spend any earnings until 2017. Funds such as the North Dakota Legacy Fund are actively investing their income in order to accumulate more assets for the time when they will invest that money back into their future generations. In fact, North Dakota has changed its investment strategy over the past year and is now looking to generate higher annualized returns from its investments in equities, fixed income products, real estate and real assets.

Other sovereign wealth funds have significant plans to grow in the future. For example, the $4.8bn Heritage and Stablisation Fund (Trinidad and Tobago) is targeting growth of up to $40bn by 2020 if the budget of Trinidad and Tobago moves towards a non-energy fiscal deficit of 10% of GDP.

If more resource-rich economies continue to plan new sovereign wealth funds, and existing sovereign wealth funds continue to expand and accumulate assets, we can reasonably expect further growth in the sovereign wealth fund space in the future. In turn, these entities will continue to become an ever more important source of funding in the asset management space.

Alternative Investments

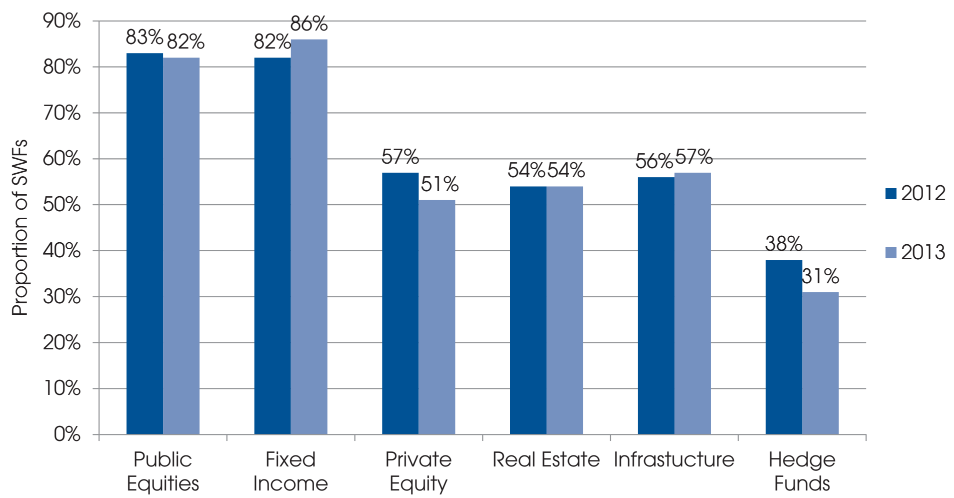
Sovereign wealth funds can be categorized by their longer-term investment horizons as well as their different objectives and, in general, lack of liabilities that need to be met, unlike pension funds. This allows them to take not only significant stakes in the funds and the securities they invest in, but also a long-term outlook when making an allocation. In fact, sovereign wealth funding can be the “stickiest” of all institutional investors as they seek returns over long periods and do not divest in times of crisis.

Alternative assets have become an important part of the portfolio of many sovereign wealth funds over recent years. Infrastructure investments are the most commonly used asset by these sovereign bodies, unsurprising given that many sovereign wealth funds are established in order to build on and improve the existing infrastructure within their country or region.

There has been a decline in the proportion of sovereign wealth fund investors that allocate to private equity and hedge fund investments since our 2012 Preqin Sovereign Wealth Fund Review. Some of this decline can be accounted for by the growth in the number of new sovereign wealth funds being established. Typically these newer sovereign wealth funds will not allocate to alternative investments, such as hedge funds and private equity funds, for a few years as they build up their investment teams and accumulate assets; during this period they tend to focus on investments in traditional funds, and equities and fixed income securities.

Regardless, there has been some significant activity by sovereign wealth funds in the private equity and hedge fund space over the past 12 months. Apax VIII closed in June 2013 with €5.8bn in commitments, including investments from three sovereign wealth funds: China Investment Corporation, GIC and FutureFund. As well as commitments to the largest funds, sovereign wealth funds have been active in smaller and more niche vehicles. For example, New Zealand Superannuation Fund acted as a key investor in the local Pioneer Capital

Fig. 1.2: Proportion of Sovereign Wealth Funds Investing in Each Asset Class, 2012 vs. 2013



Partners II vehicle, which opened and closed in 2013. Other sovereign wealth funds have been particularly active investors over the past 12 months, making a large number of investments. One of the most prolific is New Mexico State Investment Council, which has made investments in at least eight 2013 vintage private equity funds so far in 2013.

The Future of Sovereign Wealth Funds

Like all other investors, the worldwide financial crisis, which began in 2008, has undoubtedly had an effect on sovereign wealth funds. Other geopolitical events, most notably the Arab Spring, have also impacted the sovereign wealth fund community; many of these investors are located in some of these communities and are funded by governments in these areas. Despite the uncertainty caused by both financial and political unrest, sovereign wealth funds have continued to thrive and to grow. However, some regions have experienced stronger growth than others; for instance, over the past year the assets under management of Middle Eastern sovereign wealth funds have increased by 6%, compared to the 19% growth in assets of Asia-based sovereign wealth funds.

Preqin tracks 27 more sovereign wealth funds today than in our first publication released in 2008, and more sovereign wealth funds look set to be created as other nations plan entities to invest in the future of their population. For instance, currently India, Bolivia and Panama are all undergoing internal discussions to form their own sovereign wealth funds.

The 2014 Preqin Sovereign Wealth Fund Review

Preqin's first Sovereign Wealth Fund Review was 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 sixth and most comprehensive edition ever, we look across the entire investment portfolios of sovereign wealth funds, showing investment plans and preferences in the following areas:

- Public Equities
- Fixed Income Securities
- Private Equity
- Real Estate
- Infrastructure
- Hedge Funds

Since our first publication, sovereign wealth funds have grown by 68% in terms of assets under management. As a result, the influence of sovereign wealth funds has become undeniable; with total assets topping $5.38tn, these investors have reached a size comparable to that of the entire alternative assets industry, which Preqin today estimates at approximately $5.5tn.

With more sovereign wealth funds, more assets, more investments and more information than ever before, the 2014 Sovereign Wealth Fund Review is undoubtedly the most comprehensive review of the industry ever released.

The 2014 Preqin Sovereign Wealth Fund Review

A comprehensive guide to sovereign wealth funds

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11. Sovereign Wealth Funds Investing in Hedge Funds

Sovereign wealth funds have been growing increasingly comfortable with investing in hedge funds in recent years, with these sovereign entities becoming important targets for hedge fund managers seeking sources of long-term capital. Despite this positive outlook from many of these institutions, hedge funds are utilized by a relatively small proportion of sovereign wealth funds: 31% of these investors currently have an allocation to the asset class (Fig. 11.1). This represents a reduction in the proportion of sovereign wealth funds investing in hedge funds since 2012, but this is largely due to the significant number of new sovereign wealth funds that have been established over the past few years, particularly in 2012. These new entities often prefer to initially invest via equities and/or fixed income securities before diversifying into alternatives, with investments such as private equity and infrastructure typically being their preferred first route into alternative assets.

Breakdown of Sovereign Wealth Funds Investing in Hedge Funds by Sovereign Wealth Fund Location

Asia accounts for the largest proportion of sovereign wealth funds investing in hedge funds of any region, with 33% of sovereign wealth funds investing in the asset class based in the region (Fig. 11.2). Hedge funds remain important to Asia-based investors, particularly given the strong year for hedge fund performance in the region. A recent Preqin survey conducted in Q3 2013 showed that 43% of Asia-based investors had increased confidence in hedge funds as opposed to 10% of non-Asia-based investors. Korea Investment Corporation is one of the more significant hedge fund investors in Asia: currently it invests $1.3bn in the asset class, but it has the potential to add an additional $2bn to new hedge fund investments over the next few years.

MENA and North America are home to the next largest proportions of sovereign wealth funds investing in hedge funds, with 29% and 21% of sovereign wealth funds based in each region respectively. A notable addition over the past year is the sub-Saharan Africa-based Nigerian Sovereign Investment Authority, which was established with an initial $1bn. It will be looking to allocate as much as 8% towards absolute return strategies, as well as having the potential to commit further capital towards long/short strategies.

Fig. 11.1: Proportion of Sovereign Wealth Funds Investing in Hedge Funds

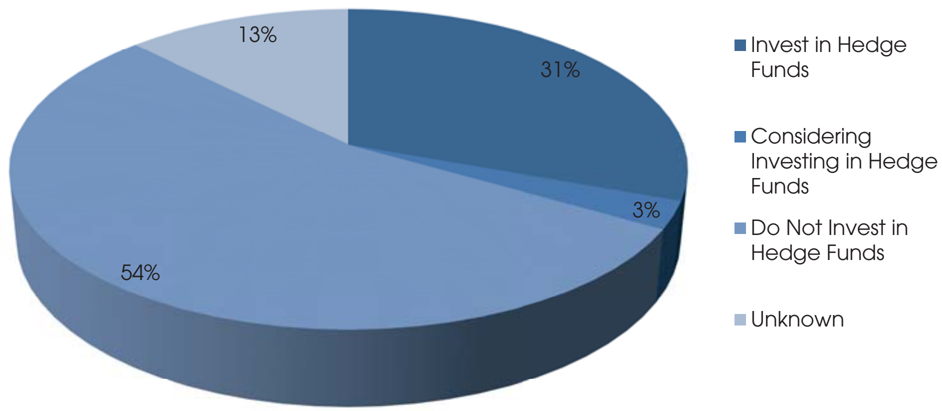
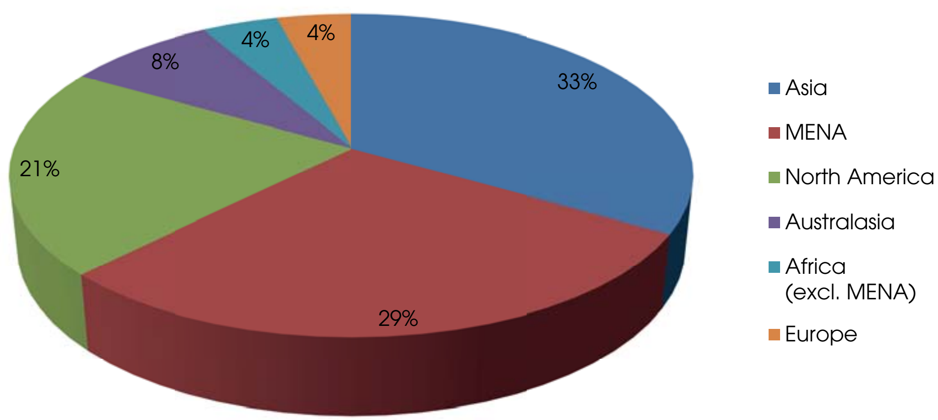


Fig. 11.2: Breakdown of Sovereign Wealth Funds Investing in Hedge Funds by Sovereign Wealth Fund Location



13. Profiles of Sovereign Wealth Funds

Abu Dhabi Investment Authority

Year Founded: 1976

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Abu Dhabi Investment Authority (ADIA) was founded in 1976 and has grown into one of the largest government investment vehicles in the world. ADIA is responsible for investing the majority of the Abu Dhabi government's oil revenues, which it commits to a wide range of investments internationally. Its mission is to secure and maintain the current and future prosperity of the Emirate of Abu Dhabi. ADIA makes its decisions based solely on its economic objectives of delivering sustained long-term financial returns and it does not seek an active role in the management of the companies in which it invests.

While ADIA is internationally focused, its sister company, Abu Dhabi Investment Council, is focused on more local and regional investments, and holds stakes in the National Bank of Abu Dhabi and Abu Dhabi Commercial Bank.

Source of Capital: **Hydrocarbon**

Total Funds Under Management 627,000	USD (mn) Current	USD (mn) Target	% of Assets Current	% of Assets Target
Equities				43-67
Fixed Income				15-30
Private Equity				2-8
Real Estate	47,025		7.5	5-10
Infrastructure				1-5
Hedge Funds	47,025		7.5	5-10
Money Markets/Other				0-10

Abu Dhabi Investment Authority (ADIA) invests in a variety of asset classes, including equities, fixed income, cash, private equity, real estate, infrastructure and hedge funds. The sovereign wealth fund employs the use of external managers as well as in-house investment teams to manage its portfolios. Currently, 75% of ADIA's portfolio is managed by external managers. It invests with a long-term focus and so it is not affected by cyclical economic trends. Although ADIA is funded by the budget surplus of the government of Abu Dhabi, it invests independently and free from governmental interference.

ADIA diversifies its investment portfolio across various regions, with a significant focus on North America. Its geographic target allocations are 35-50% to North America, 20-35% to Europe, 10-20% to developed Asia and 15-25% to emerging markets. As a matter of practise it does not invest in the United Arab Emirates and it also typically avoids investing in the Gulf region except in instance where such investments constitute part of an index.

Equities Preferences

Large Cap	Small Cap	
•	•	

N. America	Europe	Asia	MENA	Other	Global
•	•	•	•	•	•

Abu Dhabi Investment Authority (ADIA) has three teams in charge of its equities department – Indexed Funds Department, External Equities Department and Internal Equities Department. The Indexed Funds Department aims to achieve indexed returns on managed assets through a passive strategy, while the remaining departments take an active investment approach. The External Equities Department outsources investments to fund managers while the Internal Equities Department consists of an in-house team split across various sectors and countries.

ADIA has a diverse portfolio in terms of both geography and sector. It aims to allocate 32-42% of its portfolio to developed equities, 10-20% to emerging markets equities and 1-5% to small cap equities. The sovereign wealth fund places a lot of emphasis on a research-driven investment process and it monitors external managers on a daily basis.

In 2012, ADIA allocated more capital to the Internal Equities Department as compared to previous years in recognition of the team's ability to outperform benchmarks. In August 2013, it boosted its equities investment capabilities with the hiring of former Legal and General Investment Management Executive Suresh Sadasivan as Head of Asia Ex Japan in the Internal Equities Department.

Fixed Income Preferences

Sovereign	Corporate	High Yield	Investment Grade
•	•	•	•

N. America	Europe	Asia	MENA	Other	Global
•	•	•	•	•	•

Abu Dhabi Investment Authority's (ADIA) Fixed Income and Treasury Department makes debt investments on behalf of the sovereign wealth fund. The department's investments can be grouped into five broad categories; global government bonds, global inflation-linked bonds, emerging market bonds, global investment grade credit and non-investment grade credit. Its objectives are to meet the fund's daily liquidity requirements and to obtain returns at least matching its respective fixed income benchmarks.

ADIA has in-house investment capabilities, but it also issues mandates to external managers. It invests broadly and has target allocations of 10-20% to government bonds and 5-10% to credit. The sovereign wealth fund has exposure to both high yield and investment grade products, as well as inflation-linked fixed income instruments. AIDA is a major holder of US Treasury Bills, but also invests in other developed markets. In addition to developed markets, the sovereign wealth fund also has debt exposure to emerging economies.

Private Equity Preferences

Buyout	Venture	Distressed PE	Mezzanine	F of Fs	Secondaries	Other
•	•	•			•	•

N. America	Europe	Asia	MENA	Other	Emerging Managers
•	•	•	•	•	No

Abu Dhabi Investment Authority (ADIA) has been active in private equity since 1989 and views the asset class positively. ADIA is a flexible investor and does not have a particular fund preference or geographic investment focus, but it takes into consideration the history and track record of fund managers when considering new investments.

ADIA does not invest in private equity funds less than $500mn, and its minimum commitment size is generally $50mn. ADIA has a preference for mature secondary interests in order to mitigate the J-curve effect. ADIA has no plans to sell fund interests on the secondary market, but will continue to monitor the market and may consider doing so in the longer term.

ADIA is an active investor in distressed private equity funds focused on North America and Europe. It does not invest in first-time distressed private equity funds but will invest with a spin-off team. It invests in the distressed fund type in order to balance its private equity portfolio.

ADIA invests in private equity opportunities on a global scale, including emerging markets, and is keen to take advantage of opportunities in the MENA region. In addition to its fund investments, ADIA has previously co-invested in the $44.4bn purchase of TXU Corp by TPG and the £11.1bn purchase of Alliance Boots by Kohlberg Kravis Roberts. ADIA also owns stakes in private equity firms Apollo Management, Walden International and Ares Management.

As of Q2 2013, ADIA was looking to increase its level of exposure to private equity. Going forward, ADIA planned to expand its geographical expertise in Latin America, Asia, Africa and Australia.

Real Estate Preferences

Core	Core-Plus	Value Added	Opportunistic	Debt	Distressed	F of Fs	Secondaries
	•	•	•	•	•		

N. America	Europe	Asia	MENA	Other	Emerging Managers
•	•	•		•	

Abu Dhabi Investment Authority (ADIA) allocates 5-10% of its total assets to real estate and invests in the asset class both directly and indirectly. Its direct investments constitute approximately 65% of the portfolio. The majority of its residential real estate purchases have been in the US and Europe, including a UK portfolio worth $4bn.

Private real estate fund investments account for approximately 30% of its real estate portfolio, whereas public funds account for an estimated 5%. The sovereign wealth fund has invested in opportunistic and value added funds and it also invests in India through private equity real estate funds. In May 2013, the sovereign wealth fund indicated that it would invest more in direct real estate relative to private real estate in the future.

In 2011, the sovereign wealth fund invested $475mn in a Goldman Sachs hotel portfolio. The deal was part of the restructuring of Goldman Sachs' Whitehall Real Estate Funds and includes refinancing of debt. Also in 2011, ADIA combined its real estate and infrastructure teams for operational efficiency. It managed its existing portfolio whilst selling assets on an opportunistic basis to redeploy the capital in more attractive risk/return profiles.

In February 2012, ADIA appointed Pascal Duhamel as Head of European Real Estate Investments. In August 2012, ADIA was reportedly the preferred bidder to purchase a portfolio of 42 Marriott hotels for £62mn. In October 2012, ADIA committed AUD 436mn to AMP Capital Retail Trust, a club fund investing in high quality Australian shopping centres. Also during this time, the sovereign wealth fund was looking to make direct investments in India, having formed a dedicated team to identify opportunities in the country.

In December 2012, ADIA awarded a mandate to Catalyst Capital to asset manage an office property based in Ghent, Belgium. ADIA paid EUR 100mn for the 650000 sq ft property, purchasing the asset directly from an Icelandic investor.

Infrastructure Preferences

Greenfield	Brownfield	Secondary Stage	Economic	Social	PPP/PFI	F of Fs
•	•	•	•	•	•	

N. America	Europe	Asia	MENA	OECD	Other	Emerging Managers
•	•	•	•		•	

Abu Dhabi Investment Authority (ADIA) is an active investor in the infrastructure asset class, gaining exposure through direct investments, co-investments and both unlisted and listed infrastructure funds. ADIA began investing in infrastructure in 2007 and in the long term it aims to invest between 1% and 5% of its total assets in infrastructure. ADIA's primary strategy is to acquire minority equity stakes alongside proven partners as opposed to seeking control of the operation of assets.

ADIA invests in all stages of asset development but it has a particular preference for brownfield assets with strong market-leading positions and relatively stable cash flows, such as utilities and transportation assets. ADIA invests internationally, but it will not invest in either the Gulf region or UAE. The exception to this is in instances where investments in these regions comprise part of an index. The majority of its infrastructure investments are in developed markets, but it will consider opportunities in emerging markets. ADIA's investment's location must fall within set allocation parameters which include between 35% and 50% investment in North America, 25% and 35% in Europe, 10% and 20% in developed Asian markets, and between 15% and 25% in emerging markets.

ADIA's direct infrastructure portfolio includes a stake in Infrastructure Leasing & Financial Services (IL&FS), an Indian infrastructure development and finance company. In 2009 and 2010, ADIA made a number of acquisitions including the addition of a minority stake in the Chicago Metered Parking System concession through Tannadice Investments, its wholly owned subsidiary. In 2010, the sovereign wealth fund acquired a 15% stake in London's Gatwick Airport from Global Infrastructure Partners for $125mn.

In 2011, ADIA merged the Real Estate and Infrastructure investment teams in order to form a new streamlined structure. The Real Estate & Infrastructure Team was formed in order to facilitate further communication between the real estate and infrastructure investment teams, to streamline operations and open-up each area to new resources and intellectual capital.

In April 2013, ADIA, through wholly-owned subsidiary Tawreed Investments, joined a consortium - NSW Ports - to acquire long-term leases of Port Botany and Port Kembla in Australia for about AUD 5bn. The consortium was led by infrastructure firm Industry Funds Management, and included other institutional investors.

Hedge Fund Preferences

Long/Short	Macro	Event Driven	Relative Value	Multi Strategy	Other	F of Fs	Direct
•	•	•	•	•	•	•	•

N. America	Europe	Asia	MENA	Other	Global	Emerging Managers
•	•	•	•	•	•	No

Abu Dhabi Investment Authority (ADIA) has been an active investor in hedge funds since its first investment in the asset class in 1986. As of Q3 2013, the sovereign wealth fund continued to invest in hedge funds as part of its "financial alternatives" strategy. It typically invests between 5% and 10% of its total assets in hedge funds. ADIA looks to the asset class to provide diversification and gain positive returns during periods of market volatility when its other investments are in decline or producing low returns.

ADIA's portfolio includes a broad range of investment strategies including long/short equity, global macro, relative value, event driven and equity market neutral focused funds. It also includes an allocation to CTA funds. The sovereign wealth fund invests in hedge funds through both single managers and multi-manager vehicles.

ADIA looks to allocate to hedge fund managers with a track record of at least two years and minimum assets under management of $200mn. It has previously shown concern over the transparency, fee structures and liquidity terms of funds. The fund takes a global approach to investment, although it tends not to invest in the Gulf region as a matter of policy.

In 2011, ADIA made two investments into fund of one structures, with the aim of greater transparency and decision making over its investments allowing it to tailor its investments to its own portfolio.

As of Q3 2013, ADIA was in the process of making redemptions from some of its CTA/managed futures funds. It cancelled a $300mn mandate with Chesapeake Capital Corporation and the redemptions could have been as much as $800mn in total from this strategy type. However, it will continue to gain exposure to CTA/managed futures funds and at this time it had increased its exposure to emerging markets.

Alaska Permanent Fund Corporation

Year Founded: 1976

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Alaska Permanent Fund Corporation (APFC) was established in 1980 to manage and invest the assets of the state of Alaska including the Alaska Permanent Fund. The Alaska Permanent Fund was established by a constitutional amendment approved by the voters of Alaska in 1976 which stated that 25% of oil revenues, mineral bonuses, royalties and related income were to be deposited into the fund to benefit future generations of Alaskans.

APFC is operated as a public trust and the way it functions is similar to the workings of a public pension fund. A six member, governor-appointed board of trustees oversees the fund, and its primary objective is to make socially responsible investment decisions to preserve and grow the capital of the fund. Since 1976, APFC has grown from its initial deposit of $734,000 to over $40bn.

Source of Capital: **Hydrocarbon**

Total Funds Under Management 46,467 USD (mn)

	USD (mn) Current	USD (mn) Target	% of Assets Current	% of Assets Target
Equities	21700	16728	46.7	36
Fixed Income	9247	9293	19.9	20
Private Equity	2045	2788	4.4	6
Real Estate	4693	5576	10.1	12
Infrastructure	929	1859	2	4
Hedge Funds	3717	2788	8	6
Money Markets/Other	3857	7435	8.3	16

Alaska Permanent Fund Corporation (APFC) has a diversified approach to investments with the aim of minimizing risk and maximising returns. It originally only invested in bonds but now invests in a variety of traditional and alternative asset classes. This includes allocations to equities, fixed income, private equity, hedge funds, real estate and infrastructure.

The sovereign wealth fund is required to only make income-producing investments with a moderate level of risk, and therefore does not invest in projects focused upon social and economic development. APFC has 2013 target allocations of: 36% to equities, 20% to bonds and cash, 12% to real estate, 6% to private equity, 6% to absolute return strategies, 4% to infrastructure and 16% to other opportunities.

Equities Preferences

Large Cap	Small Cap	
•	•	

N. America	Europe	Asia	MENA	Other	Global
•	•	•	•	•	•

Alaska Permanent Fund Corporation (APFC) has a target allocation to equities of 36% of its total assets. Its equities portfolio is well diversified, consisting of both large cap and small cap equities with a global focus. Around one-third of its equities portfolio is invested in US-based stocks, but it also has exposure to Europe, Asia and the Americas. It adopts both active and passive management styles within its equities portfolios.

As of August 2013, APFC had 46.8% of its portfolio allocated to equities. This included a 13.4% allocation to domestic equities, a 20.4% allocation to non-domestic equities and a 13% allocation to global equities.

Fixed Income Preferences

Sovereign	Corporate	High Yield	Investment Grade
•	•	•	•

N. America	Europe	Asia	MENA	Other	Global
•	•	•	•	•	•

Alaska Permanent Fund Corporation (APFC) has a target allocation to fixed income securities of 20%. Its fixed income portfolio is global in scope and consists of both high yield and investment grade sovereign and corporate bonds. APFC may invest in fixed income assets internally, through separate accounts managed by external managers or through commingled investment funds.

As of August 2013, APFC was operating just below its target allocation to fixed income, with approximately 19.9% of its total assets invested in the asset class. This consisted of 17% invested in domestic fixed income and 2.9% invested in non-domestic fixed income.

Private Equity Preferences

Buyout	Venture	Distressed PE	Mezzanine	F of Fs	Secondaries	Other
•	•	•	•	•		•

N. America	Europe	Asia	MENA	Other	Emerging Managers
•	•	•	•	•	No

Alaska Permanent Fund Corporation (APFC) diversifies its private equity portfolio by geography, strategy, industry, size, vintage year and GP. It has a long term target of 6% of total assets to the asset class. In August 2013, its current allocation towards private equity was 4.4%.

The sovereign wealth fund is able to invest in a variety of fund types, although it prefers to invest in venture, buyout and special situations vehicles. It has an allowable investment range for each fund type within its private equity portfolio, which are as follows: between 10% and 30% to investments in venture funds, between 40% and 70% to buyout funds, and between 0% and 40% to special situations funds. The sovereign wealth fund does not allow more than 20% of its private equity portfolio to be invested with a single GP.

APFC invests both domestically and internationally. The sovereign wealth fund allocates 40% of its private equity portfolio to international investments, within which it has exposure to Asia, South America, the Middle East and emerging markets. The remaining 60% of its private equity portfolio is allocated to domestic investments. The sovereign wealth fund typically commits between $5mn and $40mn per private equity vehicle.

APFC will not commit to a first-time fund, although it will consider committing to a fund before it has held an initial close. The sovereign wealth fund is open to co-investing alongside GPs, and will also invest via separate account mandates.

Pathway Capital and HarbourVest Partners have full discretion over APFC's private equity portfolio with the aim of building towards its 6% target allocation to the asset class. Its target allocation does not however include its allocation to investments in distressed debt vehicles. These investments are included in its allocation to special opportunities, to which it has a target allocation of 18% of total assets.

As of August 2013, Maria Tsu planned to step down as the Director of Private Markets in Q4 2013, with Marcus Frampton set to take her position.

Real Estate Preferences

Core	Core-Plus	Value Added	Opportunistic	Debt	Distressed	F of Fs	Secondaries
•	•	•	•	•	•		

N. America	Europe	Asia	MENA	Other	Emerging Managers
•					

Alaska Permanent Fund Corporation (APFC) has a 12% target allocation to real estate. In August 2013, it had an actual allocation of 10.1% to the asset class. APFC invests in the real estate asset class directly, through private funds, and also through listed opportunities.

APFC aims to invest 75% of its assets in core type investments, with an allowable range of between 70% and 100%. Non-core strategies are typically defined as non-domestic investments. In terms of property type, it has exposure to multi-family, office, industrial, and retail properties located throughout the East, West, Mid-West, and Southern regions of the US. It targets quality assets in dominant markets that are over leveraged, for near-term restructuring. It also seeks distressed debt opportunities with a view to own such properties in the longer term.

In the past, APFC has predominantly invested in real estate investment trusts (REITs) and private real estate funds. More recently however, APFC has invested the majority of its real estate allocation in direct investments as this offers more control and transparency. It has separate accounts with CB Richard Ellis, LaSalle Investment Management, L&B Realty Advisors, CS Capital Management, and Sentinel Corporation. AEW Capital Management has a global mandate to invest in REITs.

In July 2012, APFC approved an investment of $400mn in a single-family investment strategy as part of its special opportunities portfolio, which is separate to its real estate allocation. Investment company American Homes 4 Rent was to provide a further $100mn. American Homes 4 Rent owns over 1,000 single-family homes and purchases vacant properties for rental purposes. In November 2012, APFC committed an additional $200mn to American Homes 4 Rent.

In May 2013, APFC announced that it was to increase the maximum allowed leverage in its real estate portfolio from 25% to 35% and it also allowed 50% leverage on any single property to take advantage of low interest rates. This allowed up to $300mn becoming available for investment in its real estate portfolio, where it was looking to add more debt. APFC had already chosen 10-12 properties from its separate account portfolio to add the debt.

Infrastructure Preferences

Greenfield	Brownfield	Secondary Stage		Economic	Social	PPP/PFI	F of Fs
•	•	•		•		•	
N. America	**Europe**	**Asia**	**MENA**	**OECD**	**Other**	**Emerging Managers**	
•	•	•		•	•	Yes	

Alaska Permanent Fund Corporation (APFC) perceives infrastructure assets as attractive additions to its portfolio, providing inflation protection with higher expected returns than fixed income. It targets a return of 4% above 3 month US treasury bills. It also intends to utilize the inflation-hedging properties as part of a larger inflation hedging strategy.

APFC achieves its infrastructure exposure through unlisted fund investments and direct co-investments. Its unlisted portfolio includes $500mn commitments to both Citi Infrastructure Partners and Global Infrastructure Partners II. APFC targets an infrastructure portfolio that comprises the following sectors: energy, water, transportation, telecommunications and social infrastructure; domestically and in both OECD and non-OECD countries. It invests in both brownfield and greenfield development projects, but no more than 20% of its infrastructure allocation may be invested in greenfield development projects.

In December 2012, APFC announced plans to put $5bn into illiquid co-investments going forward, and that infrastructure would be the primary focus for this. In February 2013, this co-investment programme was confirmed and ratified by the board alongside a change to its statement of investment principles also allowing APFC to make listed fund commitments in order to address liquidity concerns within the portfolio. In April 2013, APFC made a co-investment alongside Global Infrastructure Partners II and a number of other investors into Terminal Investment Limited. The consortium acquired a combined 35% stake in the asset.

As of Q3 2013, APFC was looking to increase its exposure to the infrastructure asset class as it worked towards its 4% target allocation. At this time it had $400mn to invest over the next 12 months and it was looking to commit to 2-3 funds, as well as co-investments alongside funds. Its typical commitment size is between $100-150mn and it will not invest less than $50mn. APFC was primarily looking for North American opportunities, and was likely to commit to funds focusing on the energy sector, although other industries would be considered.

Hedge Fund Preferences

Long/Short	Macro	Event Driven	Relative Value	Multi Strategy	Other	F of Fs	Direct
•	•	•	•	•	•	•	
N. America	**Europe**	**Asia**	**MENA**	**Other**	**Global**	**Emerging Managers**	
•	•			•	•	No	

Alaska Permanent Fund Corporation (APFC) made its first investment in the hedge fund asset class in 2004, when it awarded a $500mn mandate to Crestline Investors. Since then, the sovereign wealth fund has created a diversified portfolio, in terms of asset classes and management styles, whilst at the same time limiting the level of risk the fund is exposed to. As of Q3 2013, APFC had an allocation of 8% to absolute return strategies and was investing in 3 managed-account funds of hedge funds.

APFC typically commits between $300mn and $1bn per fund. It has invested in established North American and European managers. While APFC would not considering seeding funds, emerging managers or spin-offs, it has allowed 1 of its funds of hedge funds to setup a seeding platform which APFC would invest in indirectly.

APFC seeks global exposure to a variety of strategies including: distressed, special situations, value-oriented, structured notes, long/short equity, convertible arbitrage, fixed income arbitrage, equity market neutral, risk/merger arbitrage, statistical arbitrage, long/short credit, and managed futures/CTA. APFC targets returns of +5% against CPI for its hedge fund portfolio, and prefers low volatility from its investments. It is advised on its investments by its consultant, Callan Associates.

In Q2 2013, APFC announced the creation of a $500mn hedge fund incubator program to be funded from its nearly $1.1bn allocated to Mariner Investment Group. The program will be run as a separately managed account within Mariner, with the goal of recruiting between six and 12 portfolio managers to manage between $50mn and $100mn in capital each while being employed by Mariner Investment Group. The sovereign wealth fund has made its first allocation to the program, with Eric Pellicciaro at Mariner managing the Alarium Mariner Global Macro Fund.

APFC can also include investments in hedge funds out with its absolute return allocation and it has previously invested in the value-oriented Oaktree High Yield Fund managed by Oaktree Capital Management.

External Investment Managers & Other Firms Invested With

Firm Name	Asset Class
Acadian Asset Management	Equities
AEW Capital Management	Real Estate
Alaska Permanent Capital Management	Fixed Income
Alaska Permanent Fund Corporation	Fixed Income
AQR Capital Management	Equities
Capital Guardian Trust Co.	Fixed Income
Capital Guardian Trust Co.	Equities
CastleArk Management	Equities
CBRE Group	Real Estate
Chadwick Saylor Capital Management	Real Estate
Crestline Investors	Hedge Funds
Dimensional Fund Advisors	Equities
DSM Capital Partners	Equities
Eagle Asset Management	Equities
GMO	Equities

Sample Fund Investments - Infrastructure					
Fund	**Vintage**	**Strategy**	**Location**	**Size (mn)**	**Committed (mn)**
Global Infrastructure Partners	2008	Primary	US	5,640 USD	350 USD
Citi Infrastructure Partners	2008	Primary	US	3,400 USD	500 USD
GS Infrastructure Partners II	2010	Primary	US	3,100 USD	500 USD
EQT Infrastructure II	2012	Primary	Europe	1,925 EUR	350 USD

Sample Fund Investments - Hedge Funds					
Fund	**Year of Inception**	**Fund Type**	**Strategy**	**Valuation (mn)**	**Valuation Date**
Oaktree High Yield Fund	1995	Hedge Fund	Value-Oriented	33.5 USD	31-Jul-13

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