House of Commons

International Trade Committee

Oral evidence: Inward Foreign Direct Investment, HC 124

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Watch the meeting

Members present: Angus Brendan MacNeil (Chair); Mark Garnier; Sir Mark Hendrick; Anthony Mangnall; Lloyd Russell-Moyle; Martin Vickers; Mick Whitley; Craig Williams.

Business, Energy and Industrial Strategy Committee Member present: Paul Howell.

Questions 103 - 129

Witnesses

II: Diego López, Managing Director, Global SWF; Dr Tim Vlandas, Associate Professor of Comparative Social Policy, University of Oxford; and Duncan Bonfield, Chief Executive Officer, International Forum of Sovereign Wealth Funds.

Examination of Witnesses

Witnesses: Diego López, Dr Tim Vlandas and Duncan Bonfield.

Q103 **Chair:** We are back for the second panel of the International Trade Committee's inward foreign direct investment inquiry. On this panel we have Diego López, Dr Tim Vlandas and Duncan Bonfield. I ask the three of you to introduce yourselves—name, rank and serial number—starting with Diego López.

Diego López: I am Diego López from Global SWF.

Dr Vlandas: My name is Tim Vlandas, I am an associate professor and a Fellow at Oxford University.

Duncan Bonfield: I am Duncan Bonfield, the chief executive of the International Forum of Sovereign Wealth Funds.

Chair: To kick off this panel, I will go straight to my esteemed colleague and friend Anthony Mangnall.

Q104 **Anthony Mangnall:** I will start with you, Mr Bonfield. Can you explain about sovereign wealth funds, what they are and how they are different from normal investment funds?

Duncan Bonfield: They are state-owned pools of financial assets that are invested for specific economic activity. That is at their most simple. But there are probably four main types of sovereign wealth funds, and we have heard from Norway. You have savings funds, typically intergenerational funds often sourced from oil and commodity revenues. But they can be for future pension requirements. That is the first one: savings funds.

Secondly, you have what are called stabilisation funds. They are typically from commodity resources and they are designed to smooth out national budgets, when commodities are high and when commodities are low—there is quite a cycle in commodities. They are designed to be quite liquid funds that the Government can call on to smooth out those economic cycles.

Thirdly, there are development or strategic funds. They are a newer type of fund and you get two types. One you have seen with the likes of Temasek of Singapore or Khazanah of Malaysia. They are a financial investor in state-owned assets, typically strategic companies. They look to apply their capital better in those, reap the rewards and then ultimately invest those rewards in overseas assets or elsewhere within the economy.

Within that there are also development funds that look to invest their own money in their own country, to create additional capital from whatever source that may be. A good example would be the Ireland Strategic Investment Fund, which has been very successful. It can invest anywhere through the capital stack and has been very successful in attracting additional money, without crowding out the private capital.

Finally, you get those funds with multiple objectives. They share those objectives. Typically, or a number of those, you will see in Africa. A good example is the Nigerian Sovereign Investment Authority. It has a savings fund, which is intergenerational from its oil assets. It has a stabilisation fund, because oil is a commodity that varies in price, and it also has a domestic infrastructure fund that invests in Nigerian infrastructure and also promotes the capital markets there. It has recently been responsible for the second Niger bridge crossing.

Q105 **Anthony Mangnall:** How often would you find a sovereign wealth fund changing its objectives, a single one that turned up and then obviously went in a different direction?

Duncan Bonfield: Quite rarely would they change them completely. Ireland is a good example. There used to be a pension savings fund, but with the global financial crisis it used a good deal of that money from savings to help rescue the Irish banks. Then it changed its mandate to look at domestic investment and development. It has been very successful and has a very strong reputation on that front.

But sometimes they will add a mandate. Oman has recently done this. The State General Reserve Fund and Oman Investment Fund have combined into one investment authority, the Oman Investment Authority.

Q106 **Anthony Mangnall:** This may be a bit of an unfair question, because I suspect it needs a pretty long answer, but why does not every country set up a sovereign wealth fund?

Duncan Bonfield: That is a good question. It is well known that if the UK had set up a sovereign wealth fund on the same basis as Norway it would be around US$300 billion today. But there is a very good argument for spending the money as it was, at the time in the UK economy, which gives an immediate benefit that has long-term benefits for the country as well. There is a perfectly good argument for not necessarily doing that.

The other argument, and certainly economic orthodoxy, has pointed towards you should not be saving if you are running a budget deficit. That has changed somewhat over time, but that is certainly one of the arguments. You should only do it from savings and not raid the current account.

Q107 **Anthony Mangnall:** As we have ageing populations and decreasing fertility rates and young people, do you think more people will move towards creating pension funds and sovereign wealth funds because there is going to be a need to start saving and addressing that gap in the long term? The last thing—I will chuck this in, otherwise I will get told off for taking up too much time—how do you see sovereign wealth funds benefiting trade? How do you see them investing in either inward opportunities or export opportunities?

Duncan Bonfield: To quickly take the first one, you should be saving for an event that you know is going to be in the future, but of course you have intergenerational fairness. The voters of tomorrow do not have a vote. There is a dilemma between the political agenda and the long-term investment agenda. That is a political question and a hard one to answer. It is completely understandable why the approach is taken today. They should, in theory, but the question of politics does interject.

On the second one, I have mentioned Ireland already, and Spain does something similar in having an investment fund that can attract inward investment but also invest abroad. One of the previous witnesses said that he was not involved with politicians. Investors mostly want to deal with other investors who speak that language. Having a sovereign wealth fund that can be a middle vehicle towards external investors is a very good thing—we are increasingly seeing that—but also it can promote trade, as I have said. Yesterday we ran a webinar with a number of members using COFIDES and looking at Latin America. It is a Spanish sovereign wealth fund that promotes trade with Latin America and Spain for Spanish companies. Those are just a couple of examples.

Q108 **Chair:** Moving to Diego López, what are the main sources of capital that sovereign wealth funds invest? Where does it come from? We saw with the Norwegian one it was an asset underground they talk about as becoming an asset overground and stuff, but in general?

Diego López: According to their source of wealth, sovereign wealth funds can be classified to two different revenue streams. One is obviously the sale of commodities and it is not only oil, as in the case of Norway, but also gas in the case of Qatar, copper in the case of Chile, diamonds in the case of Botswana, even water in the case of Panama. The rationale here is to avoid the Dutch disease, and basically to diversify the economy.

The second type of funds, according to the source of wealth, is trade surpluses or foreign currency reserves, as in the case of China, Singapore, but also the transfer of stakes in public companies, which we are increasingly seeing in places like Kazakhstan, Malaysia or Turkey.

It is important to say that this is a very young industry and is still evolving. To give you an idea, at the beginning of the 1990s the funds financed by commodities represented 70% of all sovereign wealth funds. Today that figure has decreased to 55%, based on the number of strategic funds being established.

Q109 **Chair:** Duncan Bonfield, we were talking earlier about the Dutch disease, and it has been mentioned by Diego López. I am going to talk about the trends within the oil funds. You mentioned the idea of surpluses or deficits to sovereign wealth funds. The Norwegians created this and decided to do this and are still, despite that, No. 1 in the UN Human Development Index. The criticism could have been made of the UK at the same time, as we used it to subsidise the experiment of politics, or

Thatcherism if you want to be highly political about it.

What are the trends that you see changing in and around sovereign wealth funds and the ideas behind them? The understanding, if you can go a little bit further into the deficit thinking versus having a sovereign wealth fund and how that is evolving.

Duncan Bonfield: First, there are still new commodity-based funds being created. A recent example is Guyana, which has a big oil and gas field just offshore. We have worked with them to help set up their sovereign wealth fund. We are talking to Mozambique, which has another very large gas field at the moment, to help them think about their potential sovereign wealth fund. Those are still in existence, but the trend towards newer ones is that there is a shortage of capital for Governments across the world. That has been exacerbated by the Covid crisis, but Governments still have sources of capital so they are thinking, "How can we apply and make best use of that capital?"

There are two recent examples. Our most recent member is Indonesia, which has set up a sovereign wealth fund using seed money, some US$6 billion initially of Indonesian Government money. But it is looking to attract additional capital and has, in effect, taken on the role of a state private equity fund that will look to get additional capital in and to invest mostly in Indonesian infrastructure. You may know about the state capital, Jakarta, having to move and the investment required for that. That is huge sums of money, but it is a large country with a young population and has good growth. It has all the good prospects, but it has had issues with reputation, corruption, things like that. That is one good example.

India has done something similar with the National India Infrastructure Fund, which has Indian money and is investing in infrastructure assets and getting additional money into that. It is more on that side, so they are looking to make best use of limited capital. Then you point to the sovereign fund of Egypt, which has a number of state assets. It is looking to get external investments, release capital and use that to invest in the country. Those are typically more what is happening today.

Q110 **Chair:** When we spoke to the Norwegians, there was a lot of talk of the ethical aspect, the way capitalism is changing, the fact that the ants can have an effect on a huge beam of fund. Is there a pressure or is there a philosophy—I see the likes of Mozambique, which you mentioned, and the discovery of gas has been an asset of the country. It has now moved from being underground to overground. Morally, maybe ethically, it is not for one generation to reap the harvest from that; it should leave some sort of legacy. Is that a strong thought, or is the need for cash today trumping it?

Duncan Bonfield: That fund is some way off fruition, but you are absolutely right, that is at the heart of it. They are doing quite extensive consultation, but it is as much about the lack of trust between citizens and Government and Government institutions in that particular country. We recently put out a report into sovereign wealth funds in Africa, and the issue of trust between funds and the citizens is all important, so a lot of work has to be put in there. I do not need to tell you some of the history of investments and the like in some countries across the world. These funds have to work very hard to establish trust. There is an ethical consideration there. But for oil and gas, and certainly in the developing world, it is possibly less so than in developed economies.

Chair: I might pick up later if it does not come through on how sovereign wealth funds are pump-priming trade in certain spots in the world, but I will leave that at the moment because I am aware of time.

Q111 **Sir Mark Hendrick:** Is the China Investment Corporation, which I understand is one of the largest sovereign wealth funds in the world, a member of your organisation? If not, why not? What are your views on the corporation and how it operates, particularly in places like Africa and elsewhere?

Duncan Bonfield: Yes, it is a board member and has been for several years. At one time the chair was from CIC. He is now the chair of the Asian Infrastructure Investment Bank. CIC owns 10% of Heathrow, for example, and 85% of a UK logistics company called Logicor. CIC is an exemplary investment company. It does exactly the same as the Norwegian Investment Fund. It is a passive investor, it does not look to take seats on boards, all these kinds of things. It represents China and China's financial investments globally. It acts in that way. If you are looking for the best representative of China and China investments, I would look at CIC.

Q112 **Mark Garnier:** Dr Vlandas, I am interested in how sovereign wealth funds make investment decisions but a slightly more complicated answer than just a straightforward thing, having had the three headline areas. Presumably, for example, the stabilisation fund would need to be looking at countercyclical investments, and highly liquid ones at that, to be able to top up shortfalls in revenue. But if you look at the other two—the savings funds and the strategic development funds—how do they go about making investments? What is their investment decision process?

Dr Vlandas: Typically where the decisions are, to some extent, informed by the factors leading to the creation, you have this economic fundamental in the background that drives you to try to avoid the Dutch disease, at least in the cases where sovereign wealth funds are relatively large. You have a strong element of it, which is economically driven, and you also have in some cases more political motivations, insulation of wealth and various actors domestically or promoting the national interest in various kinds of ways.

Against this backdrop, you have quite a diversity, as you alluded to in your question, of investment decision-making. In the studies that look at this, on the one hand you have studies that find they deviate, in terms of correlation, from what private actors would do, but you also have many other studies that say in the vast majority of cases the stakes are minority stakes, they are long-term focused and they are pretty close to what you would expect from a kind of interest return strategy. There is lots of diversity. You can't really generalise; it would depend on the sovereign wealth funds, the target countries and the target sectors as well.

Q113 **Mark Garnier:** Our previous witnesses—and you will have listened to that—were talking about 70% in equities, 30% in debt. They have some invested in property, and I think 10% of the fund was managed to try to drive more alpha return, so absolute return. I got the sense that the majority of the fund was basically weighted with a world index, no disrespect to them. I guess half the problem is you are so big that there is only a certain amount you can do, but it seemed a very unambitious type of fund, just a basic go out and copy the indices.

Dr Vlandas: My colleagues on the funds will know more about this, but my sense from the countries we looked at over the last 20 years—France, the UK, Germany and the US—is you have different strategies depending on the funds. Some funds are very fervent investors in symbolic buildings, symbolic companies, think of the Shard, Harrods, Sainsbury's or Paris Saint-Germain. You have that kind of investment among some sovereign wealth funds. Others focus more on the high-tech sector, finance, but some of them will even have different strategies depending on countries. In Germany they tend to invest in the Mittelstand manufacturing sector, Daimler and so on, whereas in France they might invest in national champions and you have the financial sector in the UK and the US. You get quite a different picture depending on the funds and the target country.

Q114 **Mark Garnier:** I am interested to know how they find their investments. I was an investment banker, and some of my clients were sovereign wealth funds. We were coming up with ideas in the markets I covered in south-east Asia, Hong Kong and China. We would give them a call and try to persuade them to invest into these funds, and they would or would not. The Government are trying to find foreign direct investment coming into a vast array of different areas. Some of it can be the national infrastructure type of things—HS2 potentially. You could see investment coming in that. Others will be, as you say, the China Investment Corporation coming into Heathrow airport. From memory, that is a listed company so buying 10% of it is just a stock market transaction.

But there are two very big areas that I can't quite work out how you marry the investor with the investee, and that is those areas of direct investment where you are looking to get investment into exciting, interesting projects. How does the sovereign wealth fund find those opportunities and, similarly, if you are somebody who is seeking investment, how do you find them? The sovereign wealth funds are probably easier to find, but there is a vast array of investors out there. How do you find the investor? How does that mechanism work?

Dr Vlandas: Depending on the countries, you have different kinds of policies and strategies that are pursued. The UK does some things relatively well and others we could learn from other countries, and I suppose we will discuss this later to some extent. You have some companies that physically go and visit these countries, sometimes accompanied by the relevant Ministers or even in some cases by the President. I am thinking of Macron, Hollande and Sarkozy, who physically went to the Middle East with quite a large congregation of companies to try to channel those investments in particular kinds of sectors and national champions. Similarly, you would also have companies in Germany that have very long-standing relationships with the sovereign wealth funds for a whole range of reasons we can discuss.

The ultimate directed approach is to set up joint funds, in some cases private sovereign wealth fund partnerships, in other cases you have public investment banks in recipient countries doing partnerships with sovereign wealth funds. That is the case in France, and we could speak more about that if it is of interest.

Q115 **Mark Garnier:** Do they frequently invest in other people's funds? Might they go to a BlackRock fund or smaller market funds, that type of stuff, or do they tend to manage their own portfolios?

Dr Vlandas: It would vary to some extent with the different funds, but a lot of them do. You have the CIC-Blackstone one, but you also have an agreement with BNP Paribas in France. You would have joint funds to some extent, but it would vary quite a bit.

Mark Garnier: That is very helpful. Thank you very much.

Q116 **Lloyd Russell-Moyle:** Duncan, the sovereign wealth funds that belong to your organisation have to sign up to the Santiago principles. Can you briefly explain to us what those principles are and what they are seeking to achieve, what the purpose of them is?

Duncan Bonfield: The Santiago principles were established in 2008. They are 24 principles of good governance, accountability and transparency. They were defined back in 2008 by 26 leading sovereign wealth funds, brought together by the IMF and also with the input of people like the US Department of the Treasury. There was concern about foreign investment into certain recipient countries investing in strategic assets. The sovereign wealth funds said, "We are financial investors. We invest for an economic purpose and we are looking for a financial return." They got together and defined these 24 principles, which if you adhere to them, to a majority extent, the strong likelihood is that that is exactly what you are—you are a financial investor—to try to give some comfort and certainty to investee countries, recipient countries, but also to show to a wider group of stakeholders that there is nothing to be concerned about with these investments.

Q117 **Lloyd Russell-Moyle:** Does everyone adhere to them?

Duncan Bonfield: They are voluntary and they are subservient to domestic legislation, but not just our members. You will find that most sovereign wealth funds, at least in part, will try to adhere to them. Some sovereign wealth funds have certain limits, which means, for example, that they can't join my organisation. The Vietnam state investment corporation and, currently, the public investment fund of Saudi Arabia are two good examples.

Q118 **Lloyd Russell-Moyle:** Why couldn't they join your organisation?

Duncan Bonfield: I am not sure of the details, but they have done a Santiago principles self-assessment, as they are called. I think there is certain information they would keep confidential, but I don't know.

Lloyd Russell-Moyle: Some of the principles are around annual accounts and—

Duncan Bonfield: Yes, exactly, or they may simply be so new that they have not established those processes and procedures.

Q119 **Lloyd Russell-Moyle:** All of your members comply with the principles. Is there a way to see to what extent each member has complied or maybe deviated because of national interests?

Duncan Bonfield: Yes, there is. We require them to do a self-assessment every three years, and that is updated. We also run case studies on specific funds, plus they all have their own websites that generally put more data on them even under the most difficult of conditions.

Q120 **Lloyd Russell-Moyle:** Is it your belief that if someone follows these 24 principles it is a relatively benign investor? You described the Chinese investment body like that: it follows the principles; it is okay. Can you still be a rather more interventionist investor while following these principles?

Duncan Bonfield: I have not seen an example of that case, but I can't discount it completely. It seems highly unlikely that you would follow the principles, only then to deviate from the intended outcome. In other words, why bother?

Q121 **Mark Garnier:** Dr Vlandas, you wrote a paper with Professor Mark Thatcher on patient capital. Can you go into that a bit more? What type of sovereign wealth funds are more relaxed about tying up money, potentially for decades?

Dr Vlandas: Very briefly, in the interests of time, the background to this research is that there was a lot of work looking at where sovereign wealth funds invest but not so much looking at how different countries and companies react. We were trying to understand what kinds of motivations and strategies recipient countries can follow and what they find attractive in those funds. In that context, we found that recipient companies, particularly in Germany and France and their respective

Governments, really valued the long-term nature of investment and the patient aspect of it. In what ways? First, you don't have direct liabilities and, as a result of this, the funds are not required to worry about short-term fluctuations and short-term maximisation or the latest release of different figures, but they are not just patient, they are also in many cases passive—and it was alluded to in our previous discussion—in the sense that many of them are quite content not to sit on boards or have any kind of influence.

Patience is one element, but you have other kinds of benefits. You have economic diplomacy; you can build relationships with countries in, say, the Middle East, where you have a traditional geopolitical alliance that allows you to channel certain funds in certain ways, perhaps against foreign takeover risks. You also have the possibility of a quid pro quo in that you invest in Ariba, for instance, and have Ariba send back certain goods and services to your host country. There is a whole panoply of different benefits, and different countries do this a little differently.

Q122 **Mark Garnier:** But some of these are political outcomes we are talking about. I thought half the point about sovereign wealth funds is that they are meant to be above politics. Discuss.

Dr Vlandas: It depends which sovereign wealth fund you are talking about. If you think about the Norwegian sovereign wealth fund, the governance mechanism is really apolitical, really separated, but other funds, in my assessment at least, have very clear partnerships with high-level politicians and CEOs of various companies. That is not to say it is a purely political outcome. It is more to say that the political processes and dynamics of it help you to pursue certain economic strategies, such as developing particular kinds of sectors or replacing the cross-shareholdings that were very strong in Germany. You even have cases in France where for some companies that were formerly protected by golden shares, you have strong holdings of sovereign wealth funds being brought in, in some cases relatively explicitly, to protect.

Q123 **Mark Garnier:** Sir Mark Hendrick raised the China Investment Corporation and Duncan mentioned, quite rightly, that it has 10% of Heathrow airport is a very passive investor. The economic diplomacy of the CIC is non-existent, let's say, but that is not the case with the belt and road initiative. First, is that a sovereign wealth fund or not? In some cases it is financing infrastructure projects in different countries. Secondly, irrespective of whether it is a sovereign wealth fund or not, it is hugely influential on a country, particularly if that country gets into a certain amount of trouble in meeting its payments on the mortgage or whatever arrangement they have. Is that a healthy situation, and have I summed it up right, importantly? Whoever would like to go first. It sounds like it is a hot potato.

Duncan Bonfield: On the belt and road initiative, quite specifically, we were in Kazakhstan for our 2017 meeting and we had a whole panel on this. That is certainly a Chinese Government initiative, but I would distinguish between that and the CIC. They have a smallish fund that will invest in projects, and that is the limit of their involvement. There is a wider point about the Chinese Government, but I would try to distinguish that and its sovereign wealth fund.

Q124 **Mark Garnier:** But the effect. On the one hand you have the benevolent CIC coming out with lots of patient capital, lots of nice passive investments, very helpful to your organisation, but in the background there is the ever so slightly menacing belt and road initiative that is doing the economic diplomacy piece, as you described.

Dr Vlandas: Different policy tools or investment vehicles fulfil different kinds of strategic purposes for these countries. I agree that sovereign wealth funds, by and large, are not mobilised. They are not the most obvious tool to use for threatening purposes, but in some sense there is a question of insight because these funds are playing very long-term games. They come in at 1% or 2% sometimes and they will increase it and will have some interactions with the recipient companies.

By the way, in some cases the patient capital is beneficial but it also raises risks because let us remember that typically the state would intervene or support certain sectors on the basis of pre-established market failures. Here you have significant chunks of a shareholding that is no longer subject to the kinds of healthy economic pressures that you would want to have in some cases. You have issues of unfair competition and other issues of that kind.

Diego López: In my experience, motivations are normally economic rather than political. Funds may be pushed by some macroeconomic agenda in their host countries, but that may have to do with the financial profitability of the opportunity. That can be the belt and road initiative, but it can also be food security. When it comes to Middle East funds, they will be seeking agricultural land elsewhere to ensure their local population is provided for in the future. Whenever there is a red flag because of a political motivation, there are checks and balances in the host countries. In the US we have CFIUS that will look at the potential red flags and block the deals that it is not happy with it. Similarly in Europe there are different measures. I hope that answers the question.

Q125 **Martin Vickers:** I will go to Mr López first. How extensive is the investment by sovereign wealth funds in the UK economy? What is known about how it is distributed, either by industrial sector or geographically?

Diego López: Sovereign wealth funds started investing in the UK in the 1970s. The Abu Dhabi and Kuwait funds were some of the first ones to open an office in London and start investing in properties and public companies with the British Petroleum stake owned by Kuwait. Since then, in the past 50 years, they have deployed over US$131 billion, which at the exchange rate today would be over £90 billion, in more than 215 deals across the UK. If we count public pension funds—and we have been referring to them, the Canadians and the Dutch as well—the amount would be over US$215 billion. It is a very significant investment destination. I think in line with what the previous witness said, the US is still the most popular choice for investment but the UK is right on top as well. The intensity of this inflow increased in 2008 during the global financial crisis and peaked in 2015 before the Brexit referendum. Investments are still happening, but the average deal size has decreased significantly since that referendum. From the US$1 billion-plus average size, we now have US$200 million as the average.

Where is this money coming from? Some 90% of these investments are coming from nine specific funds, four of them from the Middle East. The Qatar Investment Authority has been the most acquisitive in the UK. It has invested over US$35 billion over the years in the UK. There is the Kuwait Investment Authority, which I mentioned before, and the Abu Dhabi Investment Authority, and also Mubadala from Abu Dhabi is becoming an increasingly important actor in the UK. Those four are from the Middle East.

Then we have four from the Far East, two funds from Singapore, GIC and Temasek, and two funds from China, CIC that we have been talking about but also SAFE, which is known as Gingko Tree in the UK. The last fund is the Norwegian fund, which we heard from in the session earlier today.

If we also look at the capital coming from public pension funds, we have to mention the Canadian funds that are becoming increasingly important in the UK perspective. In the past four years they have represented 50% of all the investment coming into the UK from state-owned investors. All this is reflected in the offices. London now has 23 different set-ups of sovereign wealth funds and public pension funds, more than any other city in the world. Basically there are funds looking for opportunities on the ground.

On the industries, sovereign funds have traditionally liked British properties and infrastructure, and that has been the focus traditionally. However, we have started to see a change and there is a new interest in financial services and other industries away from bricks and mortar. Real estate is still important, but the focus has shifted markedly since Brexit and Covid-19. Since 2015 sovereigns have invested only $0.5 billion in hotels and $1.2 billion in office towers. Hotels and office towers seems to be losing interest, and funds are deploying more and more capital into data centres and logistics, which also facilitates the interest of second regions outside of London. There is also some interest in senior housing and student housing, but that is secondary to data centres. The major actors we see in real estate, Qatar, which we mentioned before, GIC and Norway have invested two thirds of the total.

Infrastructure is a completely different animal from real estate when it comes to sovereign wealth fund behaviour, because funds tend to form co-investment clubs. We heard from Norway that they try to shy away or are not interested in forming clubs. That is not the case for infrastructure where we see a lot of funds coming together, bidding for the same assets together, and also a significant footprint outside of London. We see Scotia Gas Networks is invested by sovereigns and pensions. Birmingham airport, Cardiff and Manchester are all invested by sovereigns and pensions.

To finish on trends that we are seeing, life sciences, technology, renewables, including hydrogen, represent a big opportunity in the UK. You have the example of Mubadala, the fund from Abu Dhabi that I mentioned before, recently committing £5 billion into the sector, some of it along with the Future Fund of the UK. Interestingly, British venture capital has attracted only £1 billion from sovereign funds, which is less than 3% of the global figure of investments that we have seen from sovereign wealth funds. The potential is large, but it is still very much untapped at the moment.

Martin Vickers: Thank you. Does either of the other witnesses want to comment?

Duncan Bonfield: I think that was very comprehensive.

Q126 **Chair:** The information you have provided in the brief, Mr López, is absolutely fantastic. I will mention that, if a SWOT analysis was conducted, Brexit will continue to be in the weaknesses. It does not arise in the strengths, opportunities and threats. Is that the way sovereign wealth fund investors generally see Brexit as being a weakness?

Diego López: It has been a concern, not only Brexit but the nationalist freezes around the world that have happened since 2015. It is obviously a concern because a large number of the deals they pursue get blocked by the recipient countries. It is more from a point of view of getting the opportunities blocked rather than any political—

Q127 **Anthony Mangnall:** To make a bit of a glib point, presumably the breakup of the United Kingdom would harm just as much as Brexit.

Chair: It is broken already. Ireland has gone.

Anthony Mangnall: I want to ask about skin in the game without the UK having its own sovereign wealth fund. There have been a number of announcements over the last few months about a British investment bank that is looking at match funding with private investments that do some of the things that have been touched on already. Does that make up for any shortfall in not having our own sovereign wealth fund?

Duncan Bonfield: Britain is very sophisticated. It has a very well developed institutional financial base, so the need for something like that is smaller than in other countries. There is a gap, potentially, and we have seen various ways to address it, in infrastructure, you could argue, but elsewhere, because it is so sophisticated and entrepreneurial you usually find those opportunities are actually well served. It is not as obvious as in some other countries, but that does not mean there is not an argument for it. It would be on a slightly different basis.

Dr Vlandas: I think it is important not to create tools to pursue objectives that are better done in other ways. Typically with sovereign wealth funds you have excess funds and you have no direct liabilities. If France at some point in the mid-2000s or so said, "It is going to be great, we are going to use Fonds Stratégique d'Investissement", our own sovereign wealth fund, except that the primary purpose of sovereign wealth funds is to recycle excess so that you can invest it abroad. It is not a development bank or a public investment bank, in my assessment, and tools exist that would perhaps be better suited to that kind of purpose.

Q128 **Lloyd Russell-Moyle:** On that point, we have CDC, which is a very much smaller development bank for overseas. Does that fulfil any kind of need for an overseas development bank that could be mirrored domestically? You talk about Britain already having myriad different things. Do they not replace overseas investment that Britain might be losing out on?

Duncan Bonfield: It is on a different basis, because it has a development basis. It has a very strong reputation. I don't know it well, but it has been very successful financially as well as in development terms. It is a really good example, but it develops primarily in Africa. Can you really apply that back in the UK? Only in the sense perhaps that it is something the UK could be very good at and has the skills, the people and the knowledge to do, but it would be on a completely different basis.

Q129 **Chair:** I will ask one of the witnesses to briefly sum up what a world without sovereign wealth funds and the part they play in trade would be like.

Duncan Bonfield: Let me go back to 2008, when there was concern about sovereign wealth funds and concern about limiting them. They were not well known. In the global financial crisis they were seen to be sources of patient, contrary and long-term investment capital that came in in a number of cases and helped to rescue a number of western banks. They played a part in the global investment community to keep liquidity there. That is the part they actually play, and increasingly they are playing a part in developing bilateral trade. I have mentioned Ireland and Spain, we have heard that France has done similar things, and across the Middle East and in Indonesia and in Africa. They are playing an increasing role in that, and I think that is where you see more focus.

Chair: Thank you very much, I think that is a worthwhile summation of sovereign wealth funds for this panel. Thank you, all three of you, for making time and coming along today. Diego López, thank you, and also Dr Tim Vlandas and Duncan Bonfield.