CHINA'S SOVEREIGN WEALTH FUND: AN UPDATE

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Executive Summary

1. China's first Sovereign Wealth Fund (SWF), China Investment Corporation (CIC), was set up in September 2007, in part to diversify the portfolio of China's rapidly growing foreign exchange reserves and to learn from other more established SWFs.

2. Although incorporated in accordance with China's Company Law, CIC is often viewed as being under heavy state influence rather than operating largely under market disciplines. Indeed, all of its board members have strong links with respective government bodies and many of its investment seem to have national strategic significance.

3. CIC has made numerous, albeit cautious investments since its inception. Perhaps by pure bad luck, CIC's maiden investment in Blackstone Corporation made a large paper loss and was much criticized domestically. CIC was said to have stayed away from investing in strategic sectors overseas thereafter.

4. The global financial and economic crisis has also presented new investment opportunities. Despite the initial paper loss, CIC struck a deal to increase its stake in Blackstone. It also took minority stakes in US firms like Morgan Stanley which CIC further increased its stake in June 2009.

5. Since late 2008, CIC's investments seem to have shifted gradually from direct equity investments to investing through third parties. There is also a shift in emphasis from investing in raw materials and exploration to that in new and renewable energy.

6. CIC invested around US$58 billion globally in 2009 in investments in the infrastructure and clean and renewable energy sectors. But between July 2009 and May 2010, most of the CIC investments were in private-equity funds and domestic heavy industry, a shift away from energy and real estate.

7. For future development, CIC had conducted early talks of direct investment in Brazil, the world's second-biggest iron-ore exporter, and Mexico, the No. 2 silver producer, according to CIC's Chairman Lou Jiwei.

8. CIC has also been buying exchange-traded funds that track stock indices, industries, and commodity prices, such as the SPDR Gold Trust. CIC may also be buying US government bonds and securities via their China-linked entities in London, Hong Kong and other locations.

9. CIC will host the International Forum of Sovereign Wealth Funds in Beijing in April 2011. In addition, CIC participated in various multilateral and bilateral forums and meetings to discuss investment and regulatory issues, which are aimed at contributing to its future development.

10. With less than three years of experience, CIC is still in its early learning stage. To maximize risk-adjusted returns and increase the investment proceeds of China's foreign exchange reserves, CIC remains a largely passive financial investor.