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## DEALTALK-After bank fiascos, Asia SWFs eye distressed assets

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HONG KONG/MELBOURNE, June 2 (Reuters) - Asia-Pacific sovereign wealth funds (SWFs), which have made some disastrous bets on western financial companies, are now diversifying into the riskier arena of distressed asset investments.

From non-performing loans in South Korea to busted U.S. property projects, distressed assets are piling up globally and the sovereign funds are looking to swoop in at a time many western investment banks and hedge funds have been decimated by the financial crisis.

China Investment Corp (CIC), the country's \$200 billion sovereign wealth fund launched in late 2007, is now looking at five or six distressed asset deals including real estate investments in both Asia and the West, financial industry executives familiar with CIC's plans told Reuters.

The diversification comes after the massive losses they suffered from investing in some large western financial institutions over the last few years.

CIC is now under pressure from the government and media after it made large paper losses on its combined \$8.6 billion investments in U.S. private equity giant Blackstone Group and Wall Street bank Morgan Stanley

And in Singapore, Temasek [TEM.UL] faced flak last month from the usually muted pro-government local media and investors after it was known that the state investor sold its 3 percent stake in Bank of America in the first quarter, suffering a loss of more than \$3 billion in the process.

The exposure to distressed assets is not expected to account for a major portion of sovereign funds' total portfolios but the upside from it could be tremendous, given growing signs of an impending economic recovery.

"(Investing in distressed assets) shows the willingness of sovereign wealth funds to be part of it now," said Michael McCormack, executive director of fund industry researcher Z-Ben Advisors in Shanghai.

"For some of these conservative sovereign wealth funds, they may take the view that I don't need to be at or near the bottom."

### LARGE SUPPLY

Sovereign funds traditionally focus on private equity funds and direct investments -- China's funding of resources companies from Australia to South Africa is an example -- and fixed income investments such as foreign government bonds.

Other sovereign wealth funds hunting for distressed assets include Temasek, the bigger Government of Singapore Investment Corp (GIC), and the Future Fund of Australia, said the sources.

"The supply is very high and there are a lot of bankruptcies and also a lot of market players leaving the markets," said Philip Groves, managing director of alternative asset firm DAC Management in Hong Kong.

"Some private equity firms are looking to get additional capital for portfolio companies but no one is lending so they have to turn to distressed asset investors," said Groves.

However, the gap between what buyers are willing to pay and the levels at which the sellers are prepared to sell needs to be narrowed, said Bridget Auer, head of secondary loan trading at Australia & New Zealand Banking Group .

Singapore's GIC, which analysts estimate manages about \$220 billion in assets, said last year it is sifting through the financial carnage to shop for U.S. distressed assets.

The Future Fund's entry into the distressed debt space may help to increase liquidity into this market, said Auer, adding Australia is attractive to distressed asset investors.

#### EXTERNAL MANAGERS

Of the Future Fund's total A\$58 billion of assets under management, a small 3.9 percent, or A\$1.9 billion, has been allocated to distressed debt and other alternative asset classes, according to its latest portfolio update of March 31.

Officials at CIC and the Future Fund declined to comment on their investment strategies.

Asian sovereign funds' interest in distressed assets also mean opportunities for foreign private equity firms such as Carlyle Group [CYL.UL] and Oaktree Capital, which can set up custom-tailored funds for these key institutional clients.

The Future Fund late last year appointed external fund managers, including Canyon Capital Advisors, Oaktree, King Street Capital and Sankaty Advisors, to manage its investments in distressed debt in western markets.

CIC is also in talks with several U.S. and European asset managers to help the Chinese fund to invest in distressed assets, said the sources, who did not want to be identified because they were not authorised to speak to the media.

CIC is increasingly interested in trading of distressed loan and debt, a new type of business that the traders and analysts at its fixed income desk have been busy with in the last few months, said one of the sources, adding CIC is hiring specialist traders for such new businesses.

"Investing in distressed assets will require a lot more skills, a lot more hard work and time," said Michel Lowy, former head of Deutsche Bank's distressed products and strategic investments group for Asia-Pacific.

Lowy said distressed assets were a good fit for sovereign wealth funds as they are long-term investors and such assets take two to three years to reach better valuations. (Additional reporting by Saeed Azhar in Singapore) (Editing by Tony Munroe and Muralikumar Anantharaman)

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