



Abu Dhabi's new \$125 Billion Sovereign Fund Is Taking Shape

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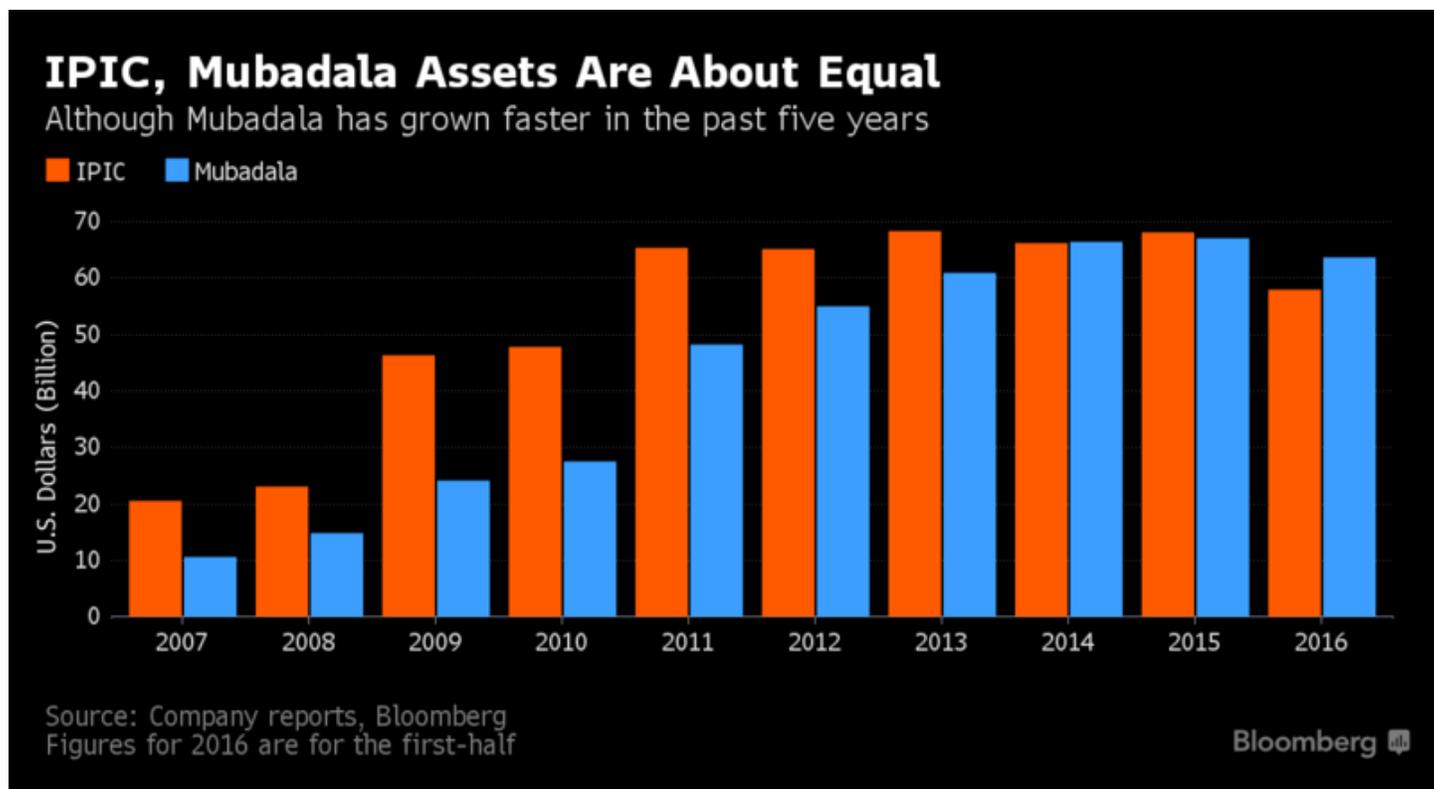
Abu Dhabi is close to finalizing the merger of two of its largest sovereign wealth funds -- Mubadala Development Co. PJSC and International Petroleum Investment Co. The combined entity, which will be known as Mubadala Investment Co., will become the fourteenth largest fund globally with about \$125 billion of assets, according to the Sovereign Wealth Fund Institute.

The emirate, home to about 6 percent of the world's proven oil reserves, is cutting spending and merging companies after oil prices slumped about 50 percent over the past two years. Consolidation is mainly taking place in the financial services industry, including the megamerger of the emirate's two largest banks National Bank of Abu Dhabi PJSC and First Gulf Bank PJSC.

Although there are few details on how Mubadala Investment will operate, here's what we do know:

1. Why are Mubadala and IPIC merging?

Cost is likely to be one of the considerations. Abu Dhabi is reining in spending as the decline in oil prices slows economic growth and plans to cut costs by combining the funds with common assets in areas such as energy, financial services and health care.



The emirate also wants to create "an industrial and investment powerhouse that has every intention to keep growing," according to Mubadala Chief Executive Officer Khaldoon Al Mubarak who will also be CEO and managing director of the combined company.

The merger will create an entity which can become a "real global player," according to Rachel Pether, an adviser at the SWFI. "Bringing IPIC and Mubadala under common control creates cost savings, efficiencies and will allow the new streamlined entity to aggressively pursue growth opportunities." It also gives the new company more "balance sheet flexibility," she said.

2. Who will run the new company?



Khaldoon Al Mubarak

Mubadala CEO Mubarak will lead the new entity, while Mubadala Chairman Abu Dhabi Crown Prince Sheikh Mohamed Bin Zayed Al Nahyan will assume the same role in Mubadala Investment. The fact that the company will take on Mubadala's name and many of its executives will lead the merged entity, is a sign that Mubadala will be the more dominant force.

IPIC Chairman Mansour bin Zayed Al Nahyan will act as vice chairman, while Energy Minister Suhail Al Mazrouei will be a board member of the merged company.

3. What assets will the new company have?

The combined entity will have about \$125 billion of assets and \$37 billion of debt. IPIC has stakes in about 18 companies encompassing oil and gas exploration and production, marketing, petrochemicals and power in places like Kazakhstan, Austria, Pakistan and Portugal.

Mubadala's holdings are more far-reaching and include investments in oil and gas, aerospace, semiconductors and real estate in about 20 countries globally. Some of its higher-profile holdings

include stakes in semiconductor producer Globalfoundries Inc. and global private equity company Carlyle Group.

Energy represents potentially one of the biggest areas of overlap. The deal is set to create a global energy business with total assets greater than ConocoPhillips, combining production operations at Mubadala with IPIC's focus on refining and distribution.

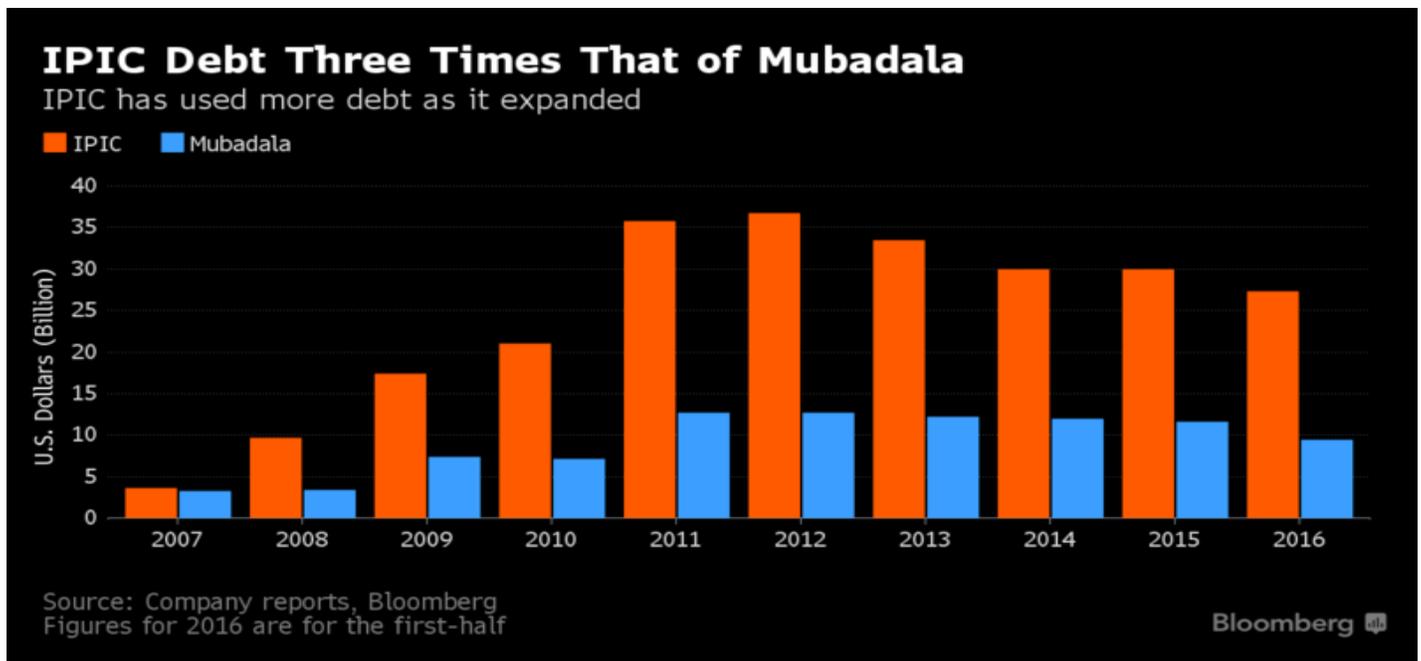
To read more about Mubadala and IPIC assets, [click here](#).

4. What will be the new entity's investment strategy?

SWFI's Pether expects a "radical change in strategy" from the merged company. "The name change to Mubadala Investment Co. suggests the new entity will be more about investing, rather than developing," she said.

The new fund will continue to invest in the core Mubadala areas of energy, metals, technology, real estate, infrastructure, health care and aerospace, while expanding into new ones, according to Mubarak. The fund will also focus on technology acquisitions this year, he said in January.

Mubadala is considering committing \$10 billion to \$15 billion to partner with SoftBank Group Corp. and Saudi Arabia's Public Investment Fund in a new vehicle to invest in global technology, people familiar with the matter said last month.



5. Is the merger an opportunity to put the 1MDB scandal to bed?

IPIC is caught up in an investigation stretching from Switzerland to Malaysia to the U.S. The probe is looking at whether money might have flowed out of 1Malaysia Development Bhd., known as 1MDB, started by Malaysian Prime Minister Najib Razak, and into personal accounts. 1MDB amassed more than 50 billion ringgit (\$10.5 billion) of debt over six years, using some of it to buy energy assets, including joint ventures with companies in Abu Dhabi and Saudi Arabia.

IPIC last year denied ownership of a company that received \$3.5 billion from 1MDB and said it's seeking \$6.5 billion from the fund and Malaysia's finance ministry as part of the dispute.

Although the merger is unlikely to help close the scandal, it will give the new fund an opportunity to "ring-fence any entity that's subject to review by the department of justice," Pether said. "The dispute has to play out through the relevant legal channels and secondary effects, such as reputational risk, are likely to endure for a while."

6. Does Abu Dhabi have other sovereign funds?

Yes, the emirate has created an array of sovereign wealth and investment funds -- some with overlapping and similar mandates -- to guard the nation's wealth and invest for the future. The Abu Dhabi Investment Authority -- the world's third largest -- is perhaps the best known and representative of the emirate's funds. It invests heavily in equities globally and has an active real estate and infrastructure team.

Aabar Investments PJSC, which is a subsidiary of IPIC, holds stakes in Italian lender UniCredit SpA, Glencore International Plc and Richard Branson's Virgin Galactic Ltd. commercial space venture.

Government-controlled fund manager Abu Dhabi Investment Council invests in asset classes including private-equity, infrastructure and hedge fund. It has major holdings in some of the emirate's biggest banks and bought New York's Chrysler Building in Manhattan in 2008 for an undisclosed price.

7. Are other Abu Dhabi companies expected to merge?

"There are other sectors that are congested," said SWFI's Pether. "We would expect to see further consolidation from state-owned enterprises over the coming 12 months."

Abu Dhabi is considering a plan to merge Abu Dhabi Commercial Bank PJSC and Union National Bank PJSC, and also combine Abu Dhabi Islamic Bank PJSC with Al-Hilal Bank PJSC, once the NBAD and FGB deal is done, people with knowledge of the matter said in November.

While stopping short of predicting further mergers in the emirate, Mubadala's Mubarak said the emirate has blazed a trail of consolidation and that more deals could follow.

"The trend is clear," he said in September. "The more benefits and successes these mergers show, that encourages other companies and sectors to do the same."