



Help Wanted in Saudi Arabia: Savvy Investors

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Yasir Alrumayyan has gotten the ear of some of the world's most successful investors. In closed-door meetings with Blackstone Group LP co-founder Stephen Schwarzman, Carlyle Group LP's David Rubenstein, and others, the former investment banker in charge of building up Saudi Arabia's Public Investment Fund (PIF) has been making a pitch: Help us build our investing expertise, and you can run money for us. A lot of it.

The PIF has become part of Deputy Crown Prince Mohammed bin Salman's plan to wean Saudi Arabia off its reliance on oil and make it a financial powerhouse. Already it's committed \$45 billion to a new technology fund. It's a high-stakes gamble for the 31-year-old prince.

If the PIF's team makes a misstep, the prince's critics may question why he's plowing revenue from oil into companies abroad rather than spending it at home. "Any failure of the new sovereign wealth fund would be used to return to the old privileges and structures," says Jean-Francois Seznec, a political scientist and nonresident senior fellow at the Global Energy Center of the Atlantic Council. Prince Mohammed's rivals could use it "to build a bigger coalition to have him sidelined."

The prince was given control of economic policy and the massive Saudi Arabian Oil Co. by his father, King Salman, in 2015. He plans to sell up to 5 percent of the state oil monopoly—better known as Aramco—in an initial public offering in 2018. Ownership of Aramco will be transferred to the PIF, as will the proceeds from the IPO.

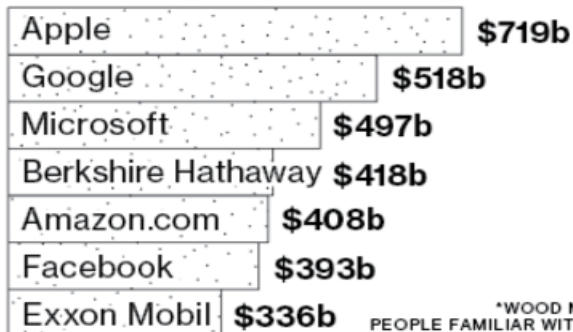
The Biggest, or Just Really Big?

Market value

Predicted valuation of Aramco



World's largest public companies**



Bigger than the combined value of the world's three largest companies

*WOOD MACKENZIE; **MARKET CAPITALIZATION AS OF FEB. 22; DATA: BLOOMBERG, PEOPLE FAMILIAR WITH WOOD MACKENZIE ESTIMATE; GRAPHIC BY BLOOMBERG BUSINESSWEEK

Aramco may be worth more than \$2 trillion in total, Prince Mohammed said last year, which would make the Saudi PIF the world's biggest sovereign fund when it takes ownership of the company. Of course, most of the fund's wealth would be tied up in Aramco. And the actual value of the company is hotly debated. An analysis by Wood Mackenzie Ltd. has put the valuation at \$400 billion, according to clients who attended a private meeting with the energy consulting group. This is based on a so-called discounted cash flow method to value Aramco's upstream business, which is very sensitive to taxation.

Even with a lower Aramco valuation, the Saudi wealth fund will be big. It already has some \$160 billion in assets, and the kingdom has announced a 100 billion-riyal (\$27 billion) transfer from official reserves. By 2020 the PIF plans to use half the assets not tied up in Saudi Aramco to invest abroad, up from 5 percent currently.

Since the plan was announced last year, the fund has funneled about \$50 billion of the kingdom's reserves into investments abroad, almost all of it into technology. That includes a \$3.5 billion stake in Uber Technologies Inc., an agreement to form a \$1 billion e-commerce company, and a \$45 billion commitment to a global technology fund formed by Japan's SoftBank Group Corp. That's a lot to commit to three deals in one industry, says Rachel Pether, an adviser at the Sovereign Wealth Fund Institute. "There's a risk that PIF are chasing the bright lights, and they need to pay attention to valuations," she says. An official for the fund declined to comment. The PIF plans to build a portfolio diversified across industries, geography, and asset classes, according to a person familiar with the fund's thinking. Still, the deals highlight the difficulties of putting large amounts of money to work quickly. "The PIF is going full speed into asset classes that some other mature funds have stayed away from," says Sven Behrendt, managing director of political risk consultant GeoEconomica GmbH. "Saudi government reserves are dwindling, so they better make a decent return, and fast. I see some chance that in a few years the wisdom of the PIF's initial investment approach will be questioned."

Alrumayyan, who was tapped by the prince in 2015, has more than doubled the number of employees in the past year, to about 130. By comparison, Abu Dhabi Investment Authority, or ADIA, employs 1,700 people to manage its \$792 billion in sovereign wealth, according to its latest annual report.

Other government funds have stumbled with some of their international investments. China Investment Corp. in 2014 vowed to improve how it manages its overseas portfolio after state auditors found dereliction of duty by managers and inadequate due diligence in 12 investments made from 2008 to 2013, leading to losses. ADIA in 2007 bought a 4.9 percent stake in Citigroup Inc., just in time to get hit by the financial crisis.

Saudi Arabia until recently kept a low profile in overseas investments. That's one reason Alrumayyan earlier this year reached out to the investment executives. The preliminary discussions included whether the private equity firms could oversee some of the PIF's investments for a fee or take minority stakes in individual companies in the portfolio, according to people familiar with the matter.

Investment success would help the prince win broad support in a conservative society that's being tested by reductions in cherished government handouts. Bonus payments for state employees were canceled, and ministers' salaries were slashed 20 percent in September. The government started raising the price of fuel at the end of last year. "If Prince Mohammed fails, the consequences for the country would be dire," says Seznec, the political scientist. "We would be back to the people being dependent on the state and the economy fully dependent on handouts."

—*With Javier Blas and Wael Mahdi*