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Sovereign Wealth Funds Are on the Rise

Sovereign wealth funds have gained an enormous significance in the international money markets in recent years. Although they have been ostracised recently due to their possible power-political objectives, they are regarded as the rescuers of crisis-hit banks during the financial crisis.

The global assets under management of sovereign wealth funds is estimated at almost EUR 2.3 trillion. Funds from the oil and natural gas exporting countries of the Middle East (around 45 per cent of the total assets under management is attributed to these) and funds from the Asian exporting countries (around 18 per cent) dominate. They invest their surplus monetary reserves via state-owned investment funds in the Western industrial nations with the aim of not being exclusively dependent on their own resources, to develop new markets for their domestic companies and to offset price fluctuations on the commodities markets.

The value of corporate investments in Europe and the USA in which investors from the Middle East and Asia (including Russia) were involved has quadrupled between 2002 and 2007. Sovereign wealth funds invested more than EUR 43 billion in companies in Europe and the USA in 2007.

In the current year, too, it is apparent that a large proportion of the total transaction value can be attributed to acquisitions made by investment funds from south-eastern Asia and the oil exporting countries. In the first half of 2008 these funds have already carried out acquisitions valued at EUR 21.6 billion. The largest of these were the investments of the sovereign wealth fund Government of Singapore Investment Corporation of almost EUR 7 billion in the Swiss bank UBS and of EUR 4.7 billion in Citigroup. In addition to this, Kuwait Investment Authority acquired shares in Merrill Lynch for EUR 4.4 billion and invested EUR 566 million in the initial public offering of the financial services provider Visa in spring 2008.

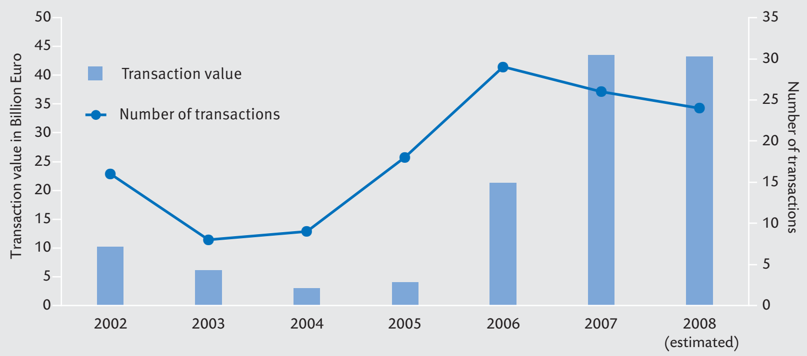
In the course of the crisis in the financial markets, investors from the Middle East and the Far East are increasingly fulfilling a stabilising role for the banks which are experiencing financial difficulties. The sovereign wealth funds provide the banks with urgently-needed capital in the form of long-term investments. At the same time, they are taking advantage of low share prices to acquire stakes in the leading international financial service providers.

Amongst the most influential shareholders of the major banks Citigroup, Merrill Lynch and UBS now are the most internationally-active sovereign wealth funds Abu Dhabi Investment Authority, Government of Singapore Investment Corporation and Kuwait Investment Authority. Increases of their stakes are planned for the second half of 2008, for example through capital increases as in the case of Merrill Lynch.

Leading stock exchanges are also attracting interest from sovereign wealth funds. In September 2007 the Qatari state-owned investment fund Qatar Investment Authority (QI) acquired 20 per cent of the London Stock Exchange (LSE). QI simultaneously acquired around 10 per cent of the Scandinavian stock exchange OMX. Furthermore, Dubai International Financial Centre acquired 28 per cent of the LSE from the Nasdaq Stock Market.

Alongside investments in the financial sector, sovereign wealth funds are also choosing targets amongst the renowned European and American conglomerates (for example GE Plastics), manufacturers of luxury cars and items (for example Ferrari, Aston Martin and Bulgari), as well as hotel chains (for example MGM Mirage and InterContinental).

Transactions of Sovereign Wealth Funds from the Middle East and Far East



Source: ZEPHYR database, Bureau van Dijk Electronic Publishing

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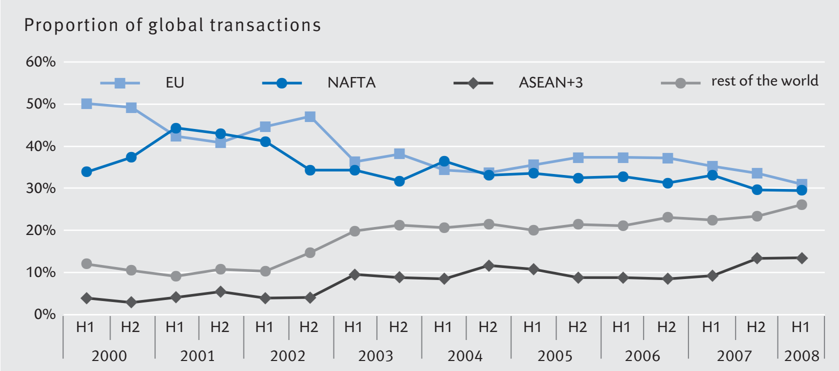
Race to Make up Ground in the Global M&A Market

The balance of power between the large regional economic areas in the global M&A market has changed considerably over the past few years in terms of the number of transactions. In 2000 the EU and NAFTA states recorded a combined share of over 83 per cent of global transactions. In the first half of 2008 they only achieved a combined share of 60 per cent. The proportion of M&A transactions in which the ASEAN states plus China, Japan and South Korea (ASEAN +3) were involved, however, rose from around three per cent in 2000 to over 13 per cent in the first half of 2008.

The Asian countries' race to make up ground can be explained in particular by a clear increase in inter-Asian M&A transactions. Chinese companies are the most attractive investment and acquisition targets for the ASEAN +3 states. If transaction value is taken as a basis, the ASEAN +3 states, continue to play a subordinate role. The transactions in which they were involved only represent three per cent of the global M&A transaction value in the first half of 2008. The EU and NAFTA states defend their considerable lead here with shares of over 54 per cent and almost 34 per cent respectively.

Comparison of Communities of States



Source: ZEPHYR database, Bureau van Dijk Electronic Publishing

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Significant Decline in Transaction Values

The fall in share prices in the last six months on the global stock markets is clearly reflected in the value of transactions carried out by investment banks. The total transaction value of almost EUR 2.5 trillion which was achieved in the previous half has fallen to around EUR 680 billion currently. The number of transactions, however, decreased only slightly by 500 to around 2,500 currently. There was little change in the rankings of investment banks based on the value of transactions in which they were involved. Goldman Sachs, Morgan Stanley and UBS share the first three positions. Only Citigroup slipped down from second to seventh place.

Some of the investment banks will appear for the last time in the ranking due to the latest incidents on the global financial markets.

Considerably more movement can be seen in the rankings of private equity firms. The first nine positions are occupied exclusively by new entries. Only Goldman Sachs was able to achieve a place in the top ten, after achieving sixth place in the previous six-month period.

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Ranking of Investmentbanks

Pos.	Investment bank	Number of transactions	value of transactions (Billion EUR)
1 (3)	Goldman Sachs	68	238.2
2 (1)	Morgan Stanley	98	232.0
3 (4)	UBS	120	224.4
4 (5)	Merrill Lynch	102	200.3
5 (7)	Lehman Brothers	54	191.3
6 (-)	Rothschild	96	182.2
7 (2)	Citigroup Inc.	104	144.7
8 (-)	ABN Amro	40	138.6
9 (8)	JP Morgan	71	122.2
10 (6)	Credit Suisse	106	112.6
	Others	1,904	120.5
	Total	2,528	679.3

Source: ZEPHYR database, Bureau van Dijk Electronic Publishing

Ranking of Private Equity Firms

Pos.	Private equity firm	Number of transactions	Value of transaction (Mrd. EUR)
1 (-)	Thomas H Lee Partners LP	2	19.6
2 (-)	Bain Capital LLC	3	19.5
3 (-)	Carlyle Group	13	5.0
4 (-)	Corsair Capital LLC	2	4.5
5 (-)	Apax Partners Worldwide LLP	2	3.7
6 (-)	Temasek Holdings (Pte) Ltd	2	3.6
7 (-)	Cheung Kong (Holdings) Ltd	1	3.5
8 (-)	Government of Singapore Investment Corporation Pte Ltd	2	3.5
9 (-)	Avista Capital Partners	4	2.9
10 (6)	Goldman Sachs	16	2.8
	Others	2,150	72.0
	Total	2,194	114.4

Source: ZEPHYR database, Bureau van Dijk Electronic Publishing

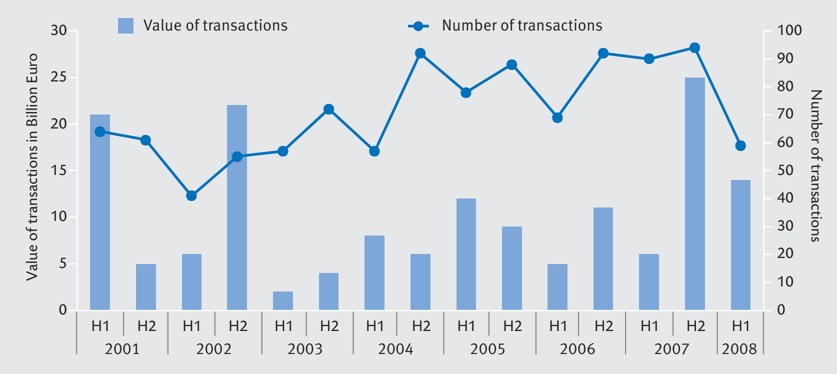
Automotive Suppliers Consolidate

In August 2008 the Frankish family-owned company Schaeffler succeeded in securing control of the DAX-listed , Hanover-based company Continental and this gave rise to the third-largest automotive supplier in the world based on turnover. Only Germany's Bosch and the Japanese supplier Denso are larger.

One of the main reasons for the trend towards expansion in this sector are the enormous research and development (R&D) efforts which must be carried out in the automotive sector and which smaller companies cannot afford.

The pressure to develop innovative and in particular energy-saving solutions is increasing due to the rapid rise in oil prices and the ever-more prominent topic of climate change. Car manufacturers are responding to these challenges in the form of alliances with their suppliers. All in all, however, global M&A activity in the automotive industry in recent years has not shown a clear trend.

Transactions in the Automotive Sector



Source: ZEPHYR database, Bureau van Dijk Electronic Publishing

Whilst the number of transactions rose considerably in 2004, the value of transactions up until the middle of last year remained rather modest compared with the beginning of the decade.

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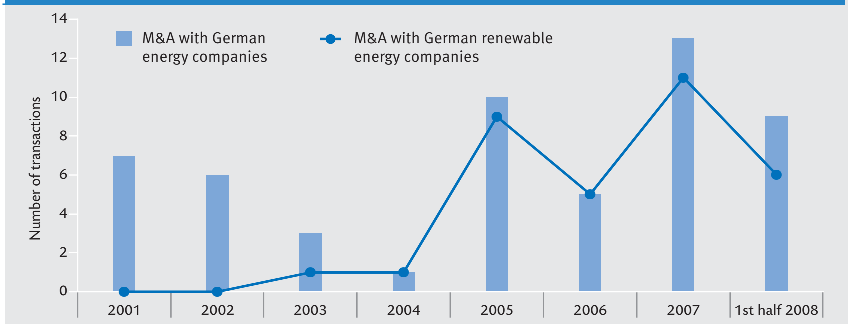
Increasing M&A Activity in the German Energy Sector

The significance of energy from renewable sources has been continually increasing in Germany since the millennium. This can be seen for example in the increase of the proportion of renewable energy in electricity generation. Whilst renewable energy only accounted for almost seven per cent of all electricity generation in 2000, in 2007 it had risen to 14 per cent. In particular the interest of foreign companies in German energy producers, whose orientation is towards renewable energy generation, has also risen significantly.

On the one hand this is because Germany invests heavily in research and development (R&D) to develop renewable energy sources. In 2000, EUR 285 million was invested in R&D in this area, and in 2007 the figure was EUR 426 million. Through acquisitions, foreign energy producers can economically acquire the knowledge gained from research for the expansion of renewable energy generation in the domestic market. Furthermore, foreign investors stand to gain from the Renewable Energy Sources Act (EEG), which was amended in 2004. The law regulates on the one hand the duty of network operators to include energy from renewable sources in their network feed-ins. In addition, it sets the level of remuneration for the fed-in energy. This guarantees the producers stable turnovers in the long term. Finally, renewable energy generation is directly supported by the state. Between 2000 and 2007 almost EUR 29 billion was provided in subsidies for the development of renewable energy sources. Of this, 55 per cent was invested in wind energy alone. It is therefore not surprising that the interest of foreign investors is concentrated predominantly in wind farm operators.

M&A Activity of Foreign Companies with German Energy Companies



Source: ZEPHYR database, Bureau van Dijk Electronic Publishing

An amendment of the EEG with effect from 1st January 2009 should further strengthen the investment and innovation incentives. The objective is to raise the proportion of renewable energy in electricity production to 30 per cent by 2020. The German government plans to make further subsidies available for this.

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Subprime Crisis Causes Reorganisation of the Worldwide Banking Landscape

The crisis in the property market in the United States is currently stifling global merger and acquisition activity in the banking sector. Prior to the collapse of the American property market, an annual high of 253 such transactions were recorded internationally in December 2006. In December 2007 this figure had fallen to 206 and in May 2008 to only 136 transactions worldwide. A clear down-wards trend of the M&A level can be seen particularly in the United States. The number and value of transactions in the US banking sector have declined considerably since the beginning of the crisis in spring 2007. Development reached a historic low in May 2008 with the first reports of the impending insolvency of the two largest mortgage banks in the world, Fannie Mae and Freddie Mac. Nor did the crisis in the global financial markets pass the European banking market by without leaving its mark. In July 2007 a new all-time high was recorded with a total of 114 transactions. Since then, the number of transactions in the European banking sector has more than halved. The value of transactions has also fallen significantly since the middle of last year. One exception is the acquisition of Dutch bank ABN Amro Holding NV in April 2008 by a consortium consisting of The Royal Bank of Scotland, the Spanish Santander and the Belgian Fortis. With a value of EUR 71.1 billion it is the largest acquisition in the history of the global financial sector.

Rising interest rates for high-risk loans are one reason for the significant decline of merger and acquisition activity in the banking sector. Moreover, many investors fear further losses in the scale of billions of potential acquisition candidates and are reluctant to carry out acquisitions as a result. The increasing instability can also be seen on the stock market. The share prices of US banks Citigroup and Merrill Lynch for example have fallen by almost 80 per cent in the last 12 months. Merrill Lynch was recently acquired by Bank of America. In the meantime, an Arabian sovereign wealth fund has invested in Citigroup. Furthermore, the bank is planning to sell investments in order to raise fresh capital. Up until now, Citigroup has sold, amongst others, its German subsidiary Citibank Privatkunden. The bank, which specialises above all in consumer credit, has found a new owner in the French Credit Mutuel. Another transaction in the German banking sector which is connected to the crisis in the US property market is the acquisition of the crisis-ridden IKB by the US private equity firm Lone Star. In the face of considerable stock market losses and the high risks, the state-owned promotional bank KfW was only able to sell its stake in IKB for EUR 100 million. The acquisition of SachsenLB and Landesbank Rheinland-Pfalz by Landesbank Baden-Württemberg (LBBW) also took place in the course of the financial crisis. With the recent sale of the Allianz subsidiary Dresdner Bank to Commerzbank for EUR 9.8 billion, a second banking giant has emerged behind the market leader Deutsche Bank. The latter recently secured a stake of almost 30 per cent in Postbank for around EUR 2.8 billion. Furthermore, there is repeated speculation regarding a possible merger between crisis-ridden WestLB and LBBW. All in all, an increase in acquisition activity in the German banking sector can therefore be anticipated again in the future.

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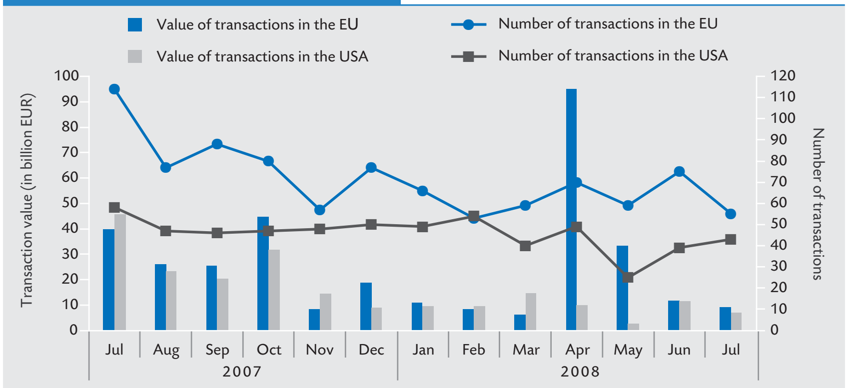
Transactions in the Banking Sector



Source: ZEPHYR database, Bureau van Dijk Electronic Publishing

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