

Sovereign fund sees 10.6% return

By CHEN JIA, China Daily, 2013-07-27

Better performance spurred by higher equity prices around world

China Investment Corp, the country's sovereign wealth fund, achieved a 10.6 percent gain from its global investments in 2012, compared with a 4.3 percent loss in 2011, according to the company's annual report on Friday.

The cumulative annualized return of CIC's overseas investments rose to 5.02 percent by the end of last year, from 3.8 percent up to 2011. Net income increased to \$77.4 billion, up from \$48.4 billion in 2011, the report said.

The better performance was mainly because of higher equity prices in global markets last year, with the company adjusting its investment portfolios, a CIC spokeswoman said.

By the end of last year, the company's total assets rose to \$575 billion from \$482 billion in 2011.

On July 5, the State Council, China's cabinet, appointed its deputy secretary-general Ding Xuedong as chairman of the sovereign wealth fund, filling the vacancy left by Lou Jiwei, who was appointed finance minister in March.

CIC will diversify its foreign exchange funds, increase investment in public equities and look for long-term investment targets with stable returns, the spokeswoman said.

The company, which manages part of the nation's \$3.5 trillion foreign exchange reserves, had invested about 32 percent of its money in public equities and 19.1 percent in fixed-income securities by the end of 2012.

Of the fixed-income securities, 54.7 percent comprised sovereign bonds of advanced economies, including the United States and European countries, while emerging markets comprised 17.5 percent, according to the annual report.

CIC's investment in the US stock market accounted for 49.2 percent of its funds in public equities.

"We have increased purchases of public equities and steadily boosted long-term investment in infrastructure construction, energy and mineral resources, and real estate," the spokeswoman said.

CIC: Volatility in markets predicted

Ding, the chairman, said, "The subdued global economic recovery, compounded by rising investment protectionism, will cast a prolonged shadow over the outlook for global financial markets."

He predicts increased volatility on world markets as major developed economies start reducing their quantitative easing programs, posing challenges for institutional investors.

Xu Hongcai, a senior financial researcher at the China Center for International Economic Exchange, a government think tank, suggested that the sovereign wealth fund sell some foreign equities to cash in on the return.

“Once the developed countries start to reduce asset purchasing, capital may flow out of China and other emerging markets. So the CIC should foresee the potential risks,” Xu said.

According to the US Treasury Department, China’s holdings of US Treasury bonds increased by \$25.2 billion in May and the total reached a record high of \$1.315 trillion. It rose by \$151.9 billion from a year earlier.

“It is very urgent for CIC to diversify the investment in US Treasury bonds,” said Xu. “A better choice is to invest in overseas infrastructure projects and support Chinese enterprises to accelerate the Going Out strategy (which encourages Chinese enterprises to invest overseas).”

Teresa Lin, DBS managing director and joint group head of corporate and investment banking, said the upturn in global equities is likely to continue in coming months.

“The eurozone debt crisis has, for now, been stabilized by the commitment of unlimited central bank support.

“US politicians were never going to send the country into deflation and financial crisis despite the haggling over the debt ceiling and government spending cuts. Life goes on and the equities risk premium goes down.”

In 2012, the State Council injected another \$19 billion into the sovereign wealth fund after raising \$30 billion in 2011. The company was launched in 2007.