

# Sovereign wealth funds tread cautiously, trim India holdings

Assets of state-owned investment vehicles stand at a 22-month low

ASHLEY COUTINHO

Mumbai, 14 November

The interest of sovereign wealth funds (SWFs) in India seems to be waning, with the total value of their holdings across equity, debt and hybrid instruments hitting a 22-month low in October.

The assets under custody of such funds grew steadily during the first three years of Narendra Modi's tenure as Prime Minister.

The value of investments, however, slipped in the subsequent months and has fallen to ₹1.63 trillion in October this year after peaking at ₹2.65 trillion in August 2016.

The Singapore government, Abu Dhabi Investment Authority, and Norges topped the list of SWFs investing in India in 2018, according to data collated from Prime Database. The value of the trio's investment in NSE-listed shares (where holding is greater than 1 per cent) was nearly ₹850 billion as of September 2018.

SWFs, which typically have a longer term investment horizon, are accountable to their shareholders for their annual or biannual performance, and realign portfolios just like other categories of FPIs when sentiment changes.

"SWFs have probably rebalanced their portfolios and changed their



## ASSETS UNDER CUSTODY OF SWFs (in ₹ trillion)



Source: NSDL

weightage to emerging markets such as India, in the light of the ongoing trade war, uncertainty around global crude oil prices and the rise in US interest rates," said U R Bhat, Director at Dalton Capital Advisors (India). Apart from global factors, rich valuations vis-à-vis subdued earnings growth has also aided their retreat.

Interest rates in the US may inch up further. The US Federal Reserve unanimously decided to maintain its current level of reference rate at 2.0-2.25 per cent at its recent meet, and indicated that it would continue

with interest rate hikes amid a strong economic backdrop.

Bhat believes a meaningful correction in Indian equities and a few quarters of strong earnings growth, along with a fall in global crude and an ease in trade war between China and the US, could bring these investors back.

Brent crude has eased to below \$65 per barrel, an eight-month low, although the uncertainty surrounding the aftereffects of the trade war continues. SWFs' investment pattern is in line with the overall stance of foreign portfolio managers (FPIs)

towards emerging markets.

The surge in US bond yields and a strengthening dollar vis-à-vis other emerging market currencies has led to a flight of capital from riskier assets. "The rise in US interest rates, as well as the rupee depreciation, has led to overseas investors - including sovereign wealth funds - reassessing their risk-adjusted returns coming from India," said Pranav Haldea, Managing Director of Prime Database.

FPIs have offloaded Indian equities worth \$5.7 billion in the year-to-date. The benchmark BSE Sensex has gained 3.2 per cent during the period.

A sovereign wealth fund comprises pools of money derived from a country's reserves, set aside for investment to benefit the country's economy and citizens. The funding for an SWF comes from central bank reserves that accumulate because of budget and trade surpluses, and revenue generated from the exporting natural resources.

Such funds are reportedly valued at over \$8 trillion, over 9 per cent of the global GDP. As of 2018, the UAE's fund was worth close to \$683 billion, while Norway's sovereign wealth fund, the largest in the world, crossed \$1 trillion for the first time in 2017, according to the World Economic Forum.