



Global oil funds get more bang for bucks—in health care

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Global crude prices are in the midst of a slump, squeezing the bottom lines of oil companies and petro-states around the world. So how do sovereign wealth funds (SWFs) cope in this environment?

The asset management arms of many oil-producing countries around the world are worth a collective \$7 trillion. Most SWFs, particularly those based in the Middle East, are notoriously secretive yet have a lot of weight—and cash—to throw around in global markets.

Meanwhile, they are regarded as patient, big-picture moneymakers: A working paper from the International Monetary Fund notes that SWFs sustained heavy losses in the 2008 crisis, but recovered them "by demonstrating their willingness to be long-term investors and riding out their financial turmoil."

Still, oil prices have shed more than 50 percent of their value in the last year, raising the question of how these megafunds cope when the very source of their wealth is eroding, with little relief in sight.

A recent study by the Sovereign Wealth Fund Institute sheds some light on how these funds are sinking a lot of money into different assets and regions. According to the organization's data, SWFs have developed a particularly voracious appetite for health care over the last decade, spending more than \$26 billion on the sector since 2003.

Of that amount, SWFs—primarily those based in Asia—have spent \$17.4 billion on pharmaceuticals, and over \$4 billion more on investments in health-care providers.

On Friday, the government of Qatar —whose Investment Authority (QIA) manages \$256 billion—announced a five year, \$35 billion multi-sector investment in the U.S. Along with opening up an office in New York City, the QIA will sink money into U.S. industries such as energy, technology and health care.

Back in October, HealthCare Royalty, a health investment firm, raised \$1.5 billion, in part from strong demand from sovereign wealth funds and other large investors.

So why health care?

"For most investors, they are looking to get a commercial return. Health care is one of those sectors where it's doing pretty good," said Michael Maduell, SWFI's president, in an interview. There's a "strategic development factor" involved in investing in health, he said, which is widely considered a growth sector that creates jobs and spends vast sums.

Most of that spending is concentrated in regions with aging populations such as Europe, Asia and North America, where health-care spending is projected to rise. The U.S. alone spends about \$3 trillion on health and hospital care, according to data from the Centers for Medicare and Medicaid Services.

Given those massive figures, it makes sense that sovereign funds view the sector as attractive. It's also in keeping with their overall desire to become less reliant on crude revenues, according to market observers.

"In a broader sense, it's a diversification play away from oil," said Joel Moser, founder and CEO of Aquamarine Investment Partners. "That suggests health care, which is a growth industry."

Medical services "is a major market, and there is significant disruption around how it's delivered," Moser said. "Technology will play a big role ... but there will always be a big need."

Emerging markets are also a big part of the SWF strategy. In October, Norway's sovereign wealth fund—the world's biggest with nearly \$900 billion in assets—announced it would "significantly" increase its holdings in India, as part of an overall strategy to generate larger returns.

"Wealth funds are a stable source of capital," said SWFI's Maduell. "They don't have to leave quick, and they don't have a timeline" like other institutional investors, he said.