Sovereign Wealth Funds are state owned entities that are used as an investment vehicle by a state, and where the original investment funds are usually derived from state generated sources. SWFs in turn make investments into a variety of real and financial assets such as stocks, bonds, real estate, commodities, private equity, and other trading arrangements. They invest both in their domestic markets and also increasingly on a global basis, and are important funding and investment sources alongside traditional investors.

**SWF: Aims And Objectives**

It is important to understand that SWFs have additional aims and objectives, and different characteristics, when compared with other investors. These manifest themselves in the way SWFs formulate and adopt their risk policies (including appetites and tolerances), the manner of their investment, their liquidity requirements, the length of their investment timelines, and how they organise other priorities. Occasionally, these priorities can include environmental, social, and corporate governance (ESG) aims. In particular, an SWF may look at the societal benefits of an investment and not just the obvious economic or financial benefits.
Santiago Principles

A good starting point when discussing the investment approach taken by SWFs is the 24 generally accepted principles and practices voluntary endorsed and adopted by SWF members of the International Forum of Sovereign Wealth Fund (IFSWF) in 2008. These principles have developed over the years but the Santiago Principles, as adopted by members of the IFSWF, continue to promote transparency, good governance, accountability, and prudent investment.

Key principles include the following:

- The legal framework for an SWF should be sound and support its operations.
- The policy purposes should be well-defined and publicly disclosed.
- Where activities have significant direct domestic and macro-economic implications, activities should be coordinated with the relevant fiscal and monetary authorities.
- Reporting to the governing body should be conducted on a regular and timely basis.
- Annual audits should be conducted in accordance with recognised international or national auditing standards.
- Where third parties are involved in the operational management, these activities should be conducted in compliance with best practice and based on sound financial and economic principles.
- Professional and ethical standards should be applied as a minimum and be clearly defined and known to all involved in the SWF’s management and business.
- Activities should be in compliance with all applicable regulatory and disclosure requirements of the countries and jurisdictions in which the SWFs operate.
- There should be public transparency to demonstrate the economic and financial orientation of the SWF and to contribute to stability in the international financial markets.
- The investment policies of an SWF should be clear and consistent with defined objectives, and take into account risk tolerance, including leverage, selection of target, etc.
- There should be no advantage gained by using privileged, confidential information or inappropriate influence applied in competing with private or third-party entities.
- Any investment should view the SWF’s shareholder ownership rights as a fundamental element of their equity investment. Any exercise of such ownership rights should be done in a manner that is consistent with the SWF’s investment policy and with the purpose of protecting the financial value of its investment.
The full extent of the Santiago Principles and their adoption by an SWF, or by its specific fund vehicle or investment entity, are a good indication as to how an SWF will approach a particular investment and should be fully understood by other parties when approaching or dealing with an SWF.

**Investment in Healthcare**

The rapid pace of change in the global Healthcare industry has created many opportunities for SWFs to invest and most of the largest SWFs see the Healthcare sector as an attractive, sustainable, and resilient market. Developments in technology and innovation in particular have created opportunities for SWF investment.

SWFs have recently invested in the following areas, amongst others:

- Healthcare services and facilities; including hospitals, specialty hospitals (such as mental health and high dependency units) nursing care, ambulatory care services, teaching or university hospitals, and healthcare professionals
- Medical devices, equipment and hospital supplies manufacturers: including surgical instruments and supplies; dental and ophthalmic equipment; cancer care/radiotherapy equipment; and digital, remote, telehealth, and fertility equipment
- Medical insurance, medical services and managed care: including health maintenance organizations, pharmacies, and similar providers or services
- Pharmaceuticals and related segments: including research and development, drug development (at the later stages), over-the-counter drugs, biotechnology, biopharmaceutical drugs, generic drugs, vitamins and supplements, and optician stores.

The increase in the use of technology, and the swift pace of innovation in the global Healthcare industry is very attractive to SWFs. As the global pandemic has changed behaviors, working and travel patterns are likely to evolve further, and the opportunity to utilize remote, internet-based technology has created new and potentially vast opportunities. In particular, the digital, remote and telehealth sectors present opportunities for rapid growth and investment and innovative partnerships for growth. SWFs can use their investing ability to invest globally in opportunities for technology transfer, and the creation of new and creative business models.

For example, there has been a trend towards innovative capital structures to support research by, and the commercialization of, companies owned by universities or other educational institutions.

A typical structure would involve the setup of a commercial entity, where both the University and the investor take an equity stake and may also have other roles and responsibilities. An SWF may provide investment and financing to support research originating from the University, in return for a certain percentage of the equity in the vehicle. The ability to reengineer the investment or product back into an SWF’s
domestic market, and the synergies between the University and the educational and research establishment “back home” can also be persuasive factors.

There are many examples around the world of SWFs involved in healthcare investment and related transactions, including in Egypt, Russia, Turkey, Qatar, UAE, Saudi, Singapore, Malaysia, Canada, Nigeria, and Norway.

**Collaboration And/or Co-Investment**

Unrealistic valuations and asking prices driven by very competitive private equity (PE) demand and stock market/IPO volatility, have all provided challenges for SWFs. As long-term investors looking for value, SWFs have therefore increasingly invested alongside a range of different investment partners including PE funds.

Notwithstanding the trend towards co-investing, challenges for an SWF’s investment activity still exist. These include:

- The limitations of the conventional limited partner/general partner (LP/GP) Fund structures
- Fee structures generally
- Fund life cycles.

If it is felt that the basic private equity model does not necessarily create an alignment of interests, or maximize the preferred timeline benefits for an SWF investor, there are possibly other, more favored structures, such as deal-by-deal co-investment and ongoing evergreen funds.

**National and Potential Concerns, Including for FDI**

An important point to bear in mind, and particularly relevant where SWFs are investing outside their domestic market, is the restriction around foreign direct investment (FDI). Investors, like SWFs, that acquire assets outside their domestic markets and are directly or indirectly linked to governments, have to balance their investment profile with the underlying political or economic considerations. Countries that apply FDI restrictions, to a greater or lesser extent, include most of the European Union, the United Kingdom, Australia, Canada, China, India, Japan, and the United States.

Such restrictions move beyond the concept of national security, as this is sometimes considered to be too broad to provide guidance to regulators and participants, for its actual implementation in practice. There is also debate surrounding FDI “acceptability thresholds” in certain jurisdictions that help to determine if FDI in a particular sector is acceptable. This threshold could take into account the landscape in which a business operates, the type of foreign investor, the local political environment and the influence of other parties.

**Opportunities**

SWFs are keen, active and important investors in the global Healthcare industry.
Their aims and objectives are generally conducive to co-investing with other investors, and the economic and financial benefits of their involvement, both in terms of their ability to invest substantial sums and their wider aims and objectives, make them an attractive partner. They are likely to continue to see the industry as a good opportunity for growth and in need of active investment, which should also help in the ongoing drive for better governance and representation, and perhaps create more impetus for regulatory intervention in cross-border activity.

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