



Seven
Investment Management

Got a spare billion, guv?

Launching the second biggest IPO ever? Looking to raise \$19.3 billion? Then, tapping up a few retail investors is hardly going to cut the mustard. You're going to need some big beasts, some corporate leviathans with deep pockets full of spare cash. Enter the world of the 'cornerstone investor'.

The cash-hungry institution is ABC – or AgBank or, to present its full Sunday name, Agricultural Bank of China. It is a flotation that has been met with a mix of curiosity, scepticism and apathy; unusual for a corporate transaction that is only dwarfed by 2006 IPO of Industrial & Commercial Bank of China.

Many mainstream institutional investors seem to have shrugged at the juicy prospect of owning what some observers have called 'China's worst mega-bank'. But there has been interest. And this brings us to the point of our tale – the influence of what are not-widely-known-as cornerstone investors. They are large institutions that buy big stakes in large-scale IPOs such as this one; they are courted for their cash and are much needed to fill up the order book.

For the record, ABC's roster is led by the Qatar Investment Authority with an estimated \$2.8 billion stake and the Kuwait Investment Authority at \$800 million. There then follows a selection of Asian financial institutions, including Standard Chartered, Cheung Kong and United Overseas Bank.

So what, do we hear you cry? First of all, it's interesting (well, it is to us anyway) that no western institutions are among buyers. That shouldn't really be surprising, though, given that most of them are trying to offload assets rather than gather new ones. This sort of deal also shows where the power (cash) lies in the world of finance at the moment i.e. Asia and parts of the Middle East.

An interesting footnote to this is what happens next. Quite often, it appears that cornerstone investors sell their stakes after a few years; quite often at a loss or negligible profit. So what's the point?

Are these deals just vanity exercises for the managers of the buyers? Is there an ulterior motive to curry favour with local politicians – we supported your bank flotation, now how about doing us a favour? Or is it a genuine attempt to secure a stake in big company in a growing market and make some money for shareholders? Who knows? But perhaps the 'cornerstones' aren't quite the long-term, bedrock investors they're made out to be.

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