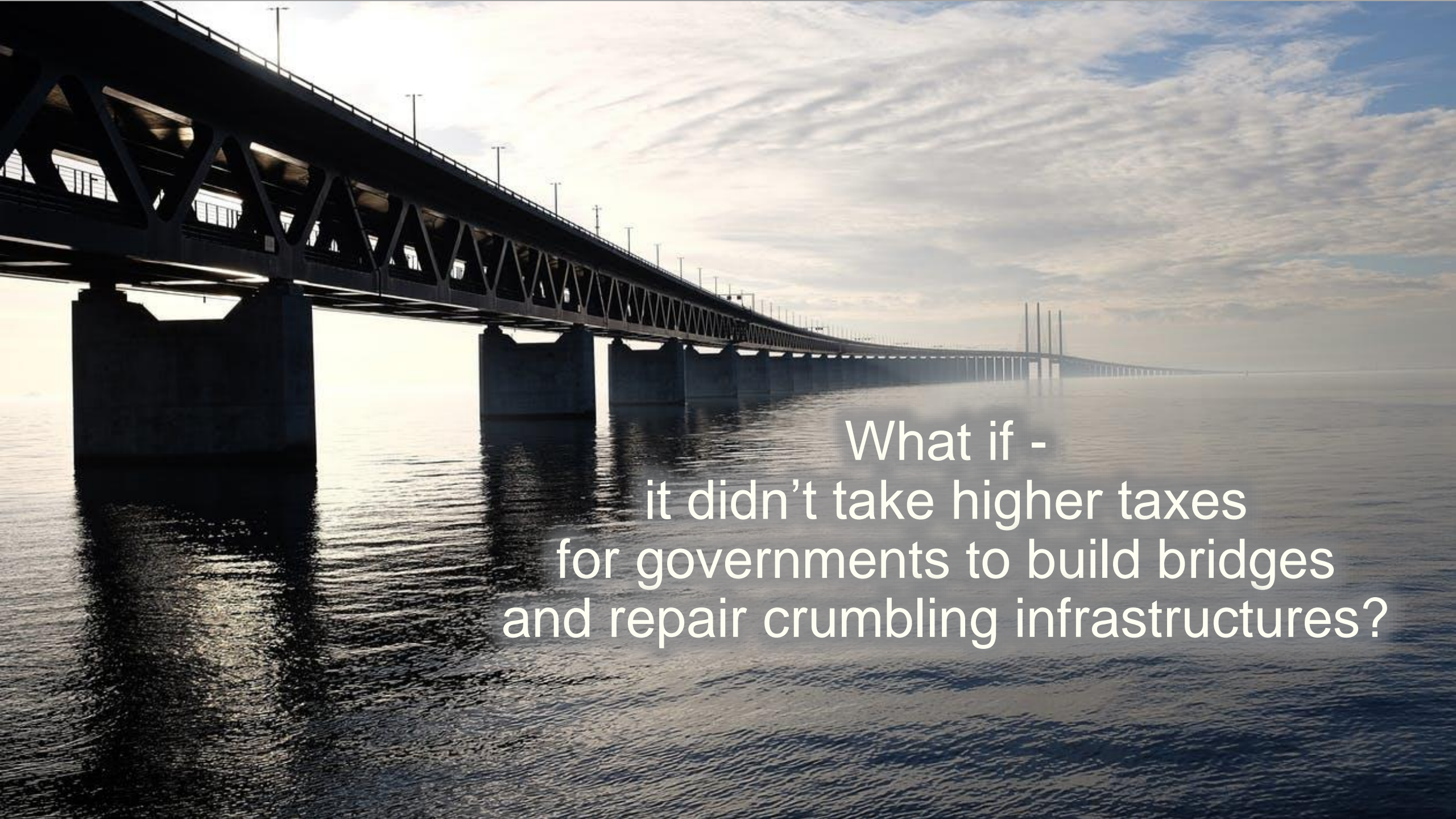


Release Public Wealth





What if -
it didn't take higher taxes
for governments to build bridges
and repair crumbling infrastructures?

IMF Fiscal Monitor on Public Wealth



Christine Lagarde, October 2018

“Public Wealth has a value
of at least twice GDP”

“Professional management could deliver
extra revenues, equal to
what advanced economies
collect in corporate tax in a year”



Fiscal Analysis Typically Focuses on Debt

Non-financial



Buildings, Land, Machinery



[], Health Care

Financial



Cash, Reserves

Assets

DEBT

Liabilities

The Public Sector Balance Sheet Adds Information on Assets and Non-debt Liabilities

Non-financial



Buildings, Land, Machinery



[], Health Care

Financial



Cash, Reserves

Assets

DEBT

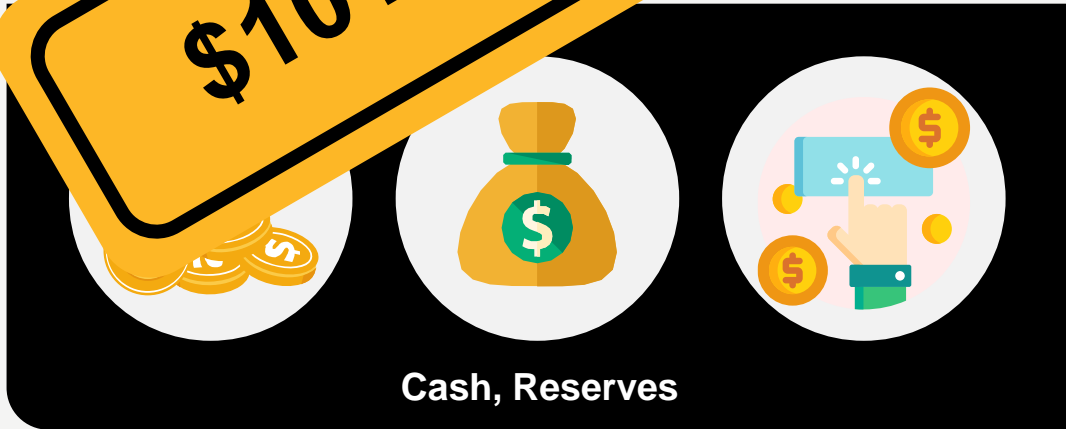
Liabilities

These Assets are Worth \$101 Trillion or 219 Percent of GDP in 31 Countries

Non-financial

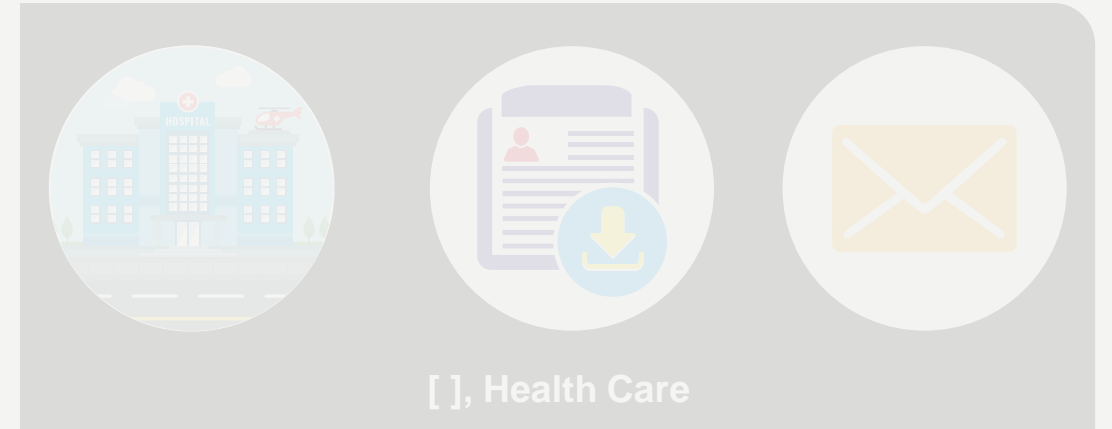


Financial



Cash, Reserves

Assets



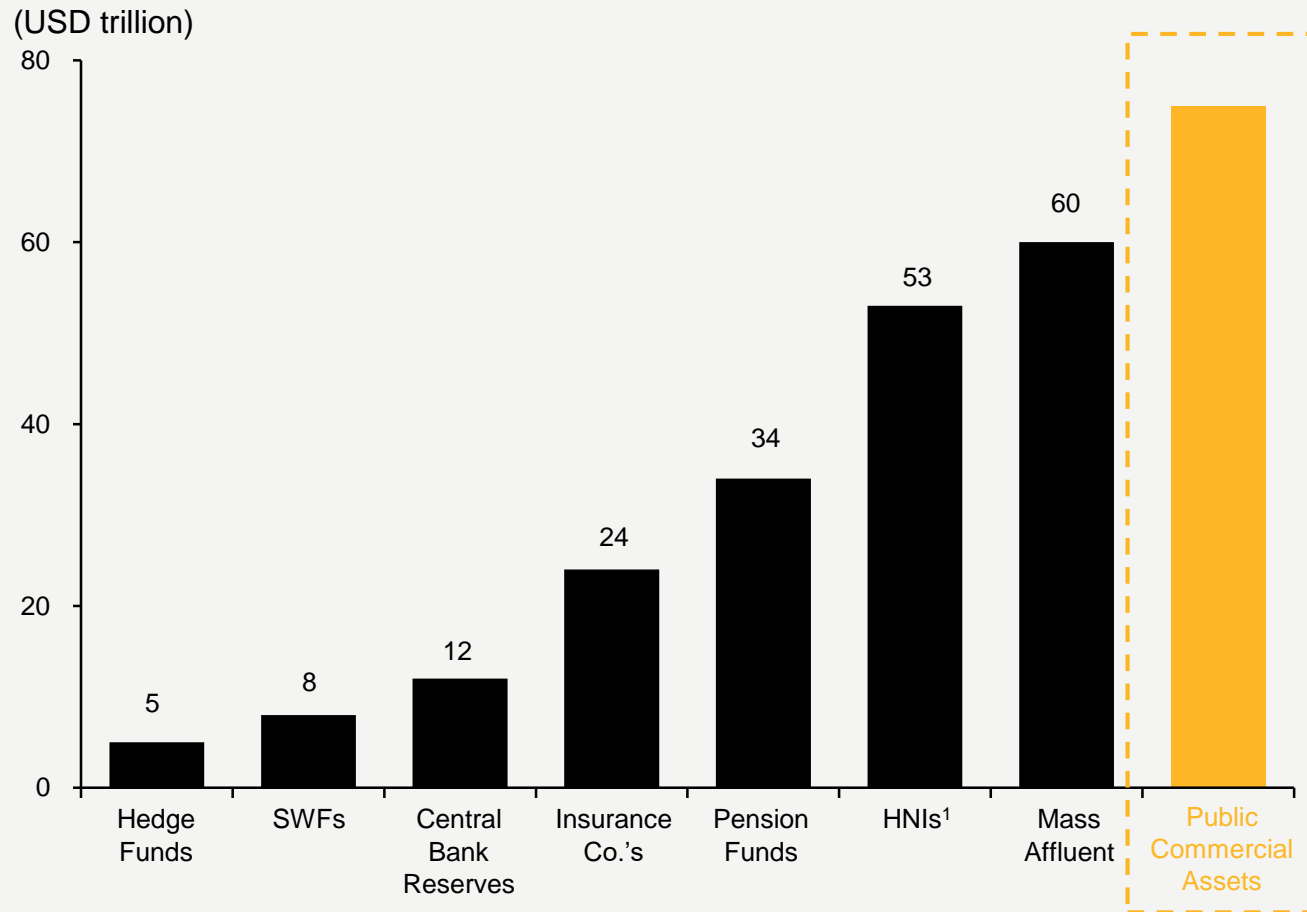
[], Health Care



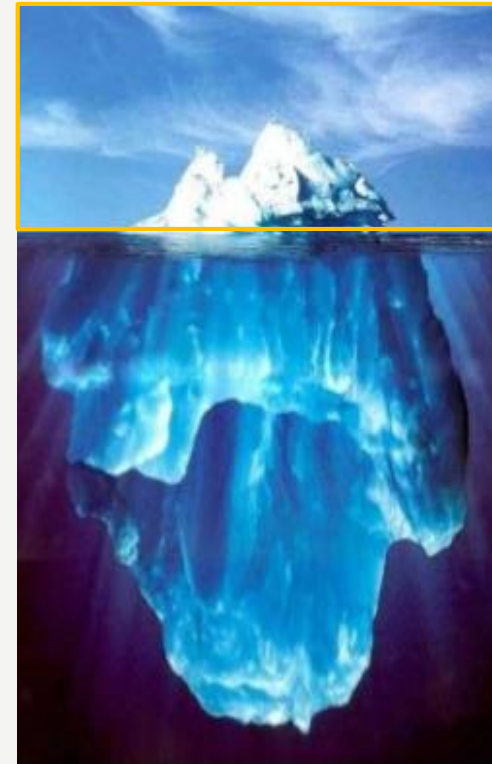
Liabilities

Governments are - sitting on a 'goldmine'

Value per asset segment



Tip-of-the-Iceberg



- Book value
- Mainly national level
- Market value
- Local and regional level
- Real estate

Public Wealth - generate revenues, if managed professionally

Public Commercial Assets

Operational Assets



- Roads (toll-roads)
- Rails
- Airport and Shipping

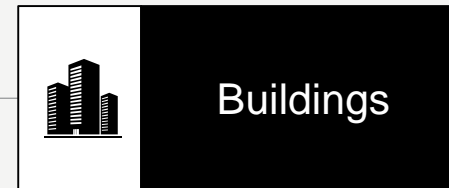


- Energy
- Water



- Banks
- Insurance companies
- Mortgage providers

Real Assets



- Used by public entity
- Used by third-party
- Unused



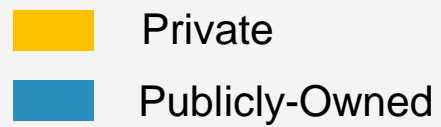
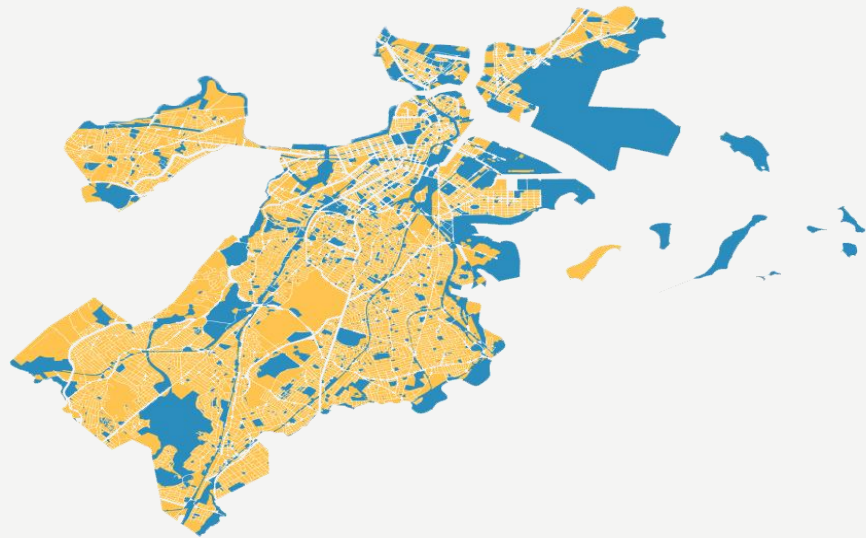
- Developed land
- Undeveloped land

Like IKEA and McDonalds – governments are also in the real estate business?

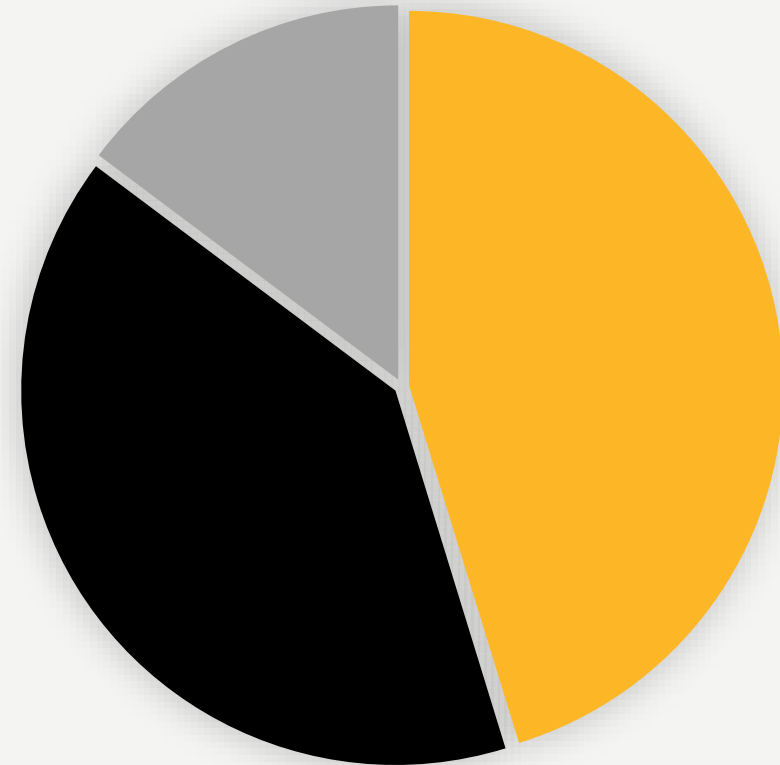


Hidden values in Real Estate

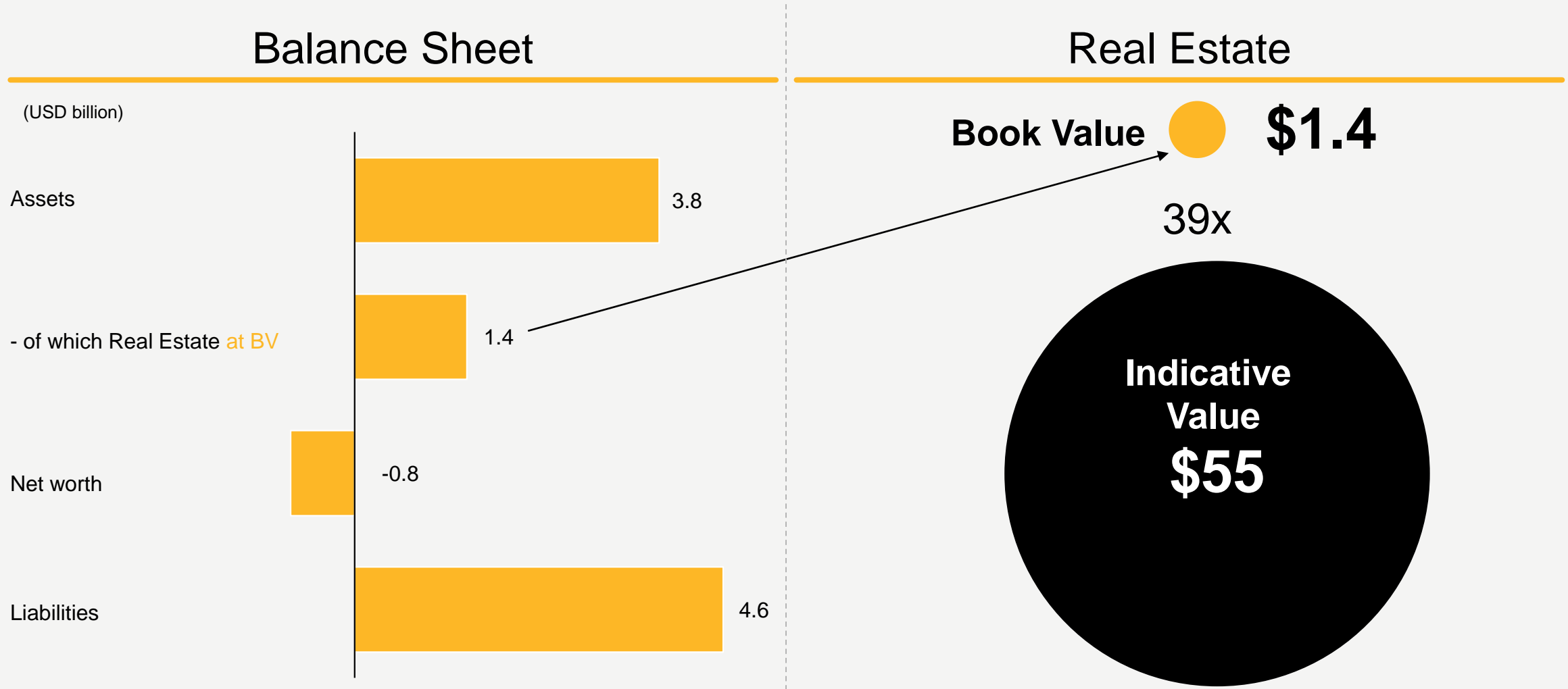
1/4 of total market



1 x GDP

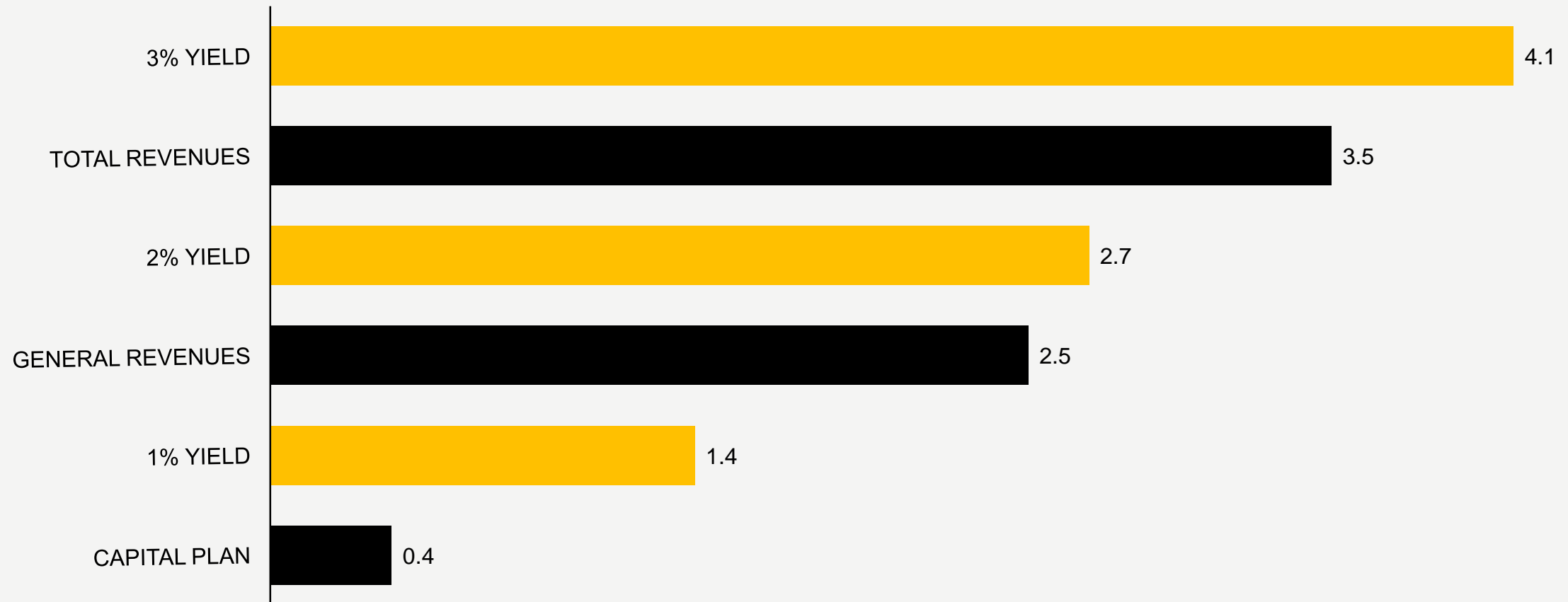


City of Boston – Financial Statements 2016



Potential Yield

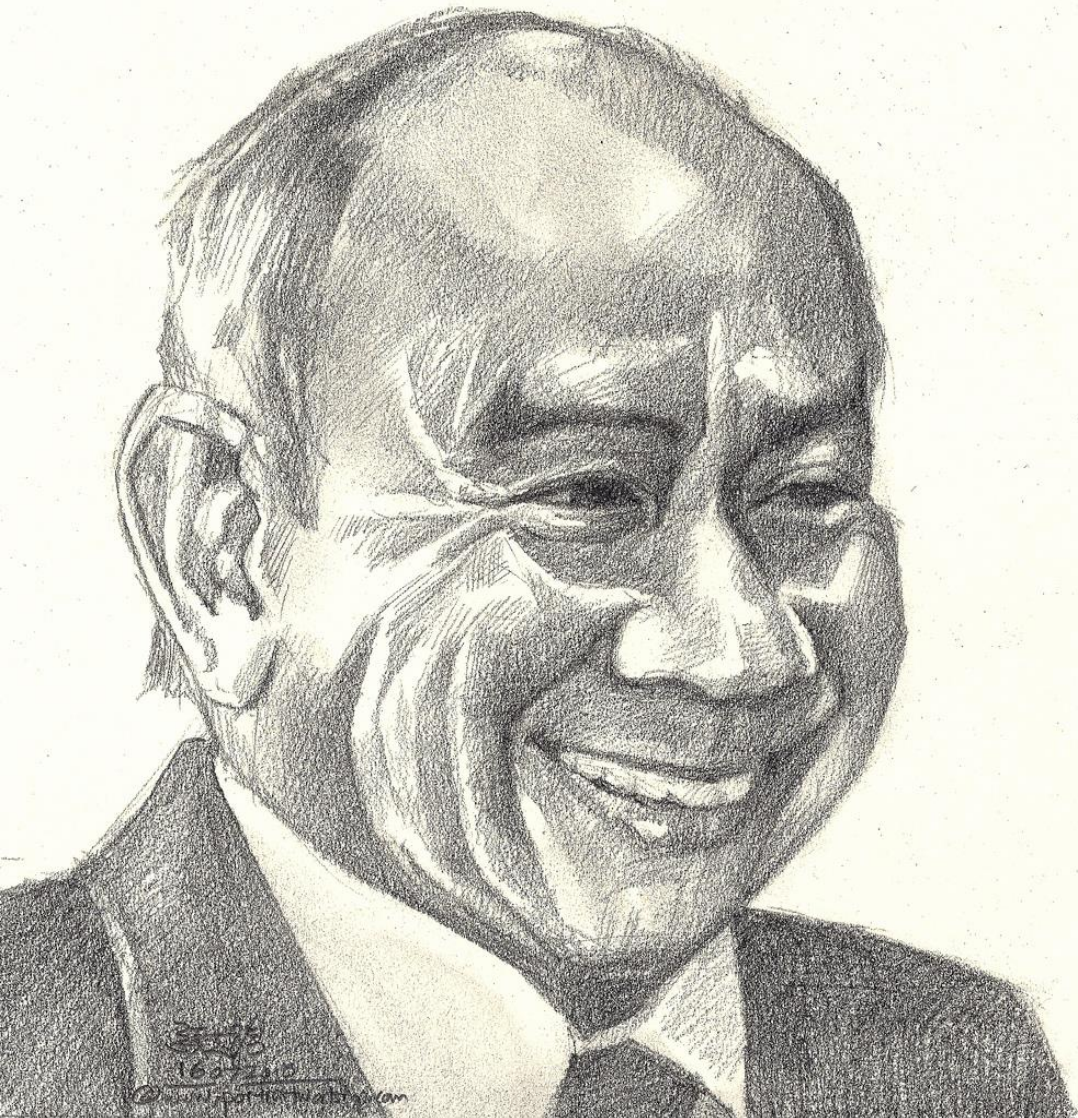
A Penny in Yield from Assets, is a Penny saved in Taxes



Threatened colonial outpost - to prosperous city state



Jamaica and Singapore both achieved independence some 50 years ago, with roughly the same population, life expectancy, GDP and GDP/ capita. Singapore was the size of Lagos in Nigeria, but with only a fraction of its population. It was left without significant resources or any realistic means to survive.



“One of the tragic illusions that many countries entertain is the notion that politicians and civil servants can successfully perform entrepreneurial functions.

It is curious that, in the face of overwhelming evidence to the contrary, the belief persists.”

*Goh Keng Swee,
Former Singapore Deputy PM, 1972*

Singapore separated its economic policy from the management of public assets incorporating the governance inside public wealth funds - Temasek ('operational') and GIC ('liquidity') that helped fund the economic development of the city-state, while HDB ('housing') provided almost 80% of citizens with public housing

Sweden blazing the reform trail

On the back of the Swedish financial crisis in the 1990's a number of structural problems was revealed;

- Outsized public expenditures
- Poor industrial competitiveness
- Vital sectors in need of restructuring
- Laid-off workers not to be absorbed by public sector
- Inefficiently regulated markets
- Dysfunctional wage setting
- Incentives to work to be increased
- Transfer systems, including pensions, reformed

Instead of privatisation – Sweden professionalised governance of public assets

The Swedish-experiment

'The hidden elephant'

The country's largest business owner

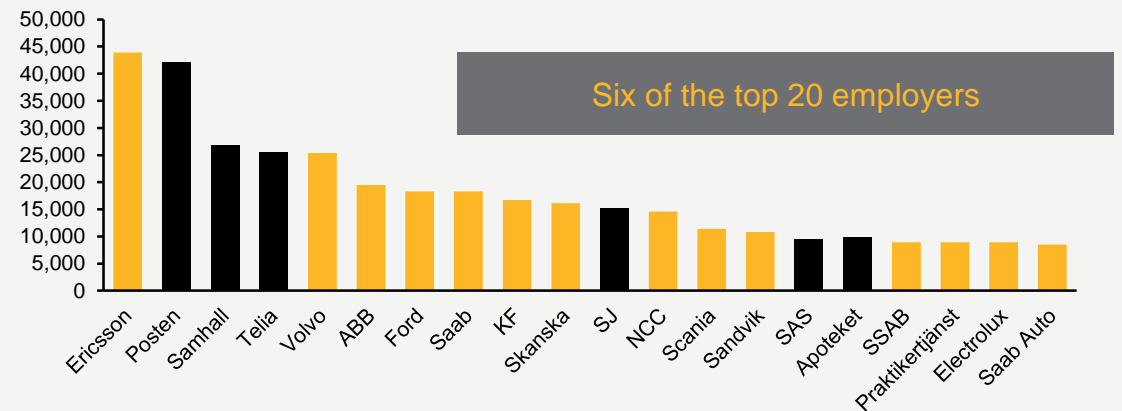
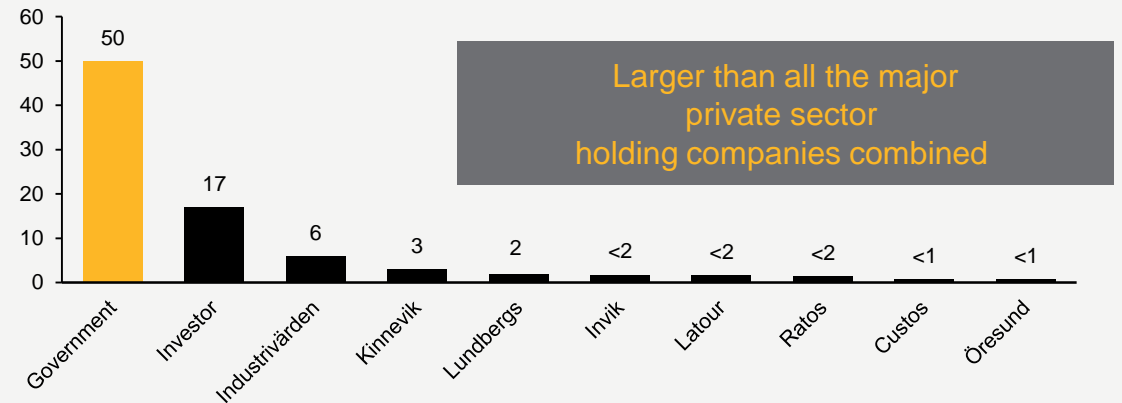
- Representing a 1/4 of the business sector
- Some of largest companies by value and turnover
- The largest employer in the country

All business models disrupted by

- Globalization
- Market liberalization
- Technology (internet, mobile telephony)

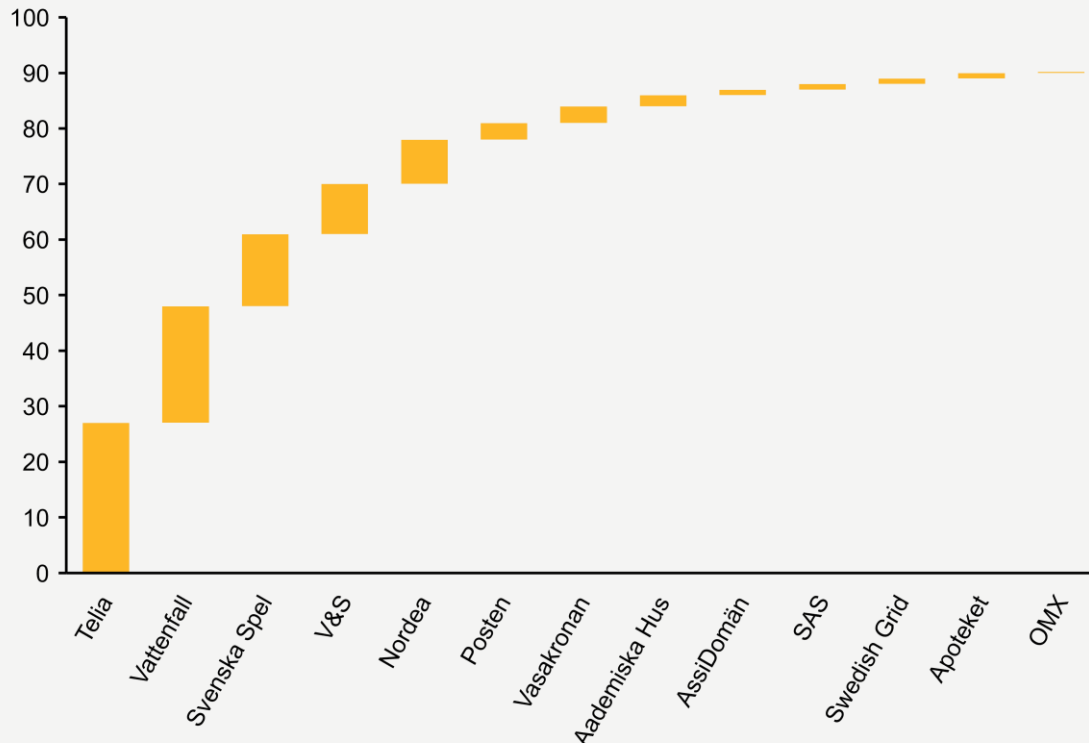
Unions, tax-payers and business community
- with vested interest

Consolidation surprised



Introducing an equity culture

Consolidating governance



Total of 63 companies -
six largest more than 80 per cent of the value

“As if privately owned”

Transparency of the portfolio as a whole and for each holding - ‘As if listed portfolio’

Value maximization as the single objective

- Outsourcing all policy objectives, subsidies and 'universal service obligations'

Commercial capital structure including

- Commercial dividend policy
- Incentive systems for all employees

Professionalizing boards delegate responsibility, change culture - recruiting new;

- Non-Executive Directors — 85 per cent
- CEOs — 75 per cent
- CFOs — 50 per cent

Active ownership helped transformed the economy

Boosted economic growth

Metamorphosis of the public portfolio

- Boosted growth in the economy
- Improved returns from public corporations
- Intensified market competition
- Increased productivity and promoted disinflation

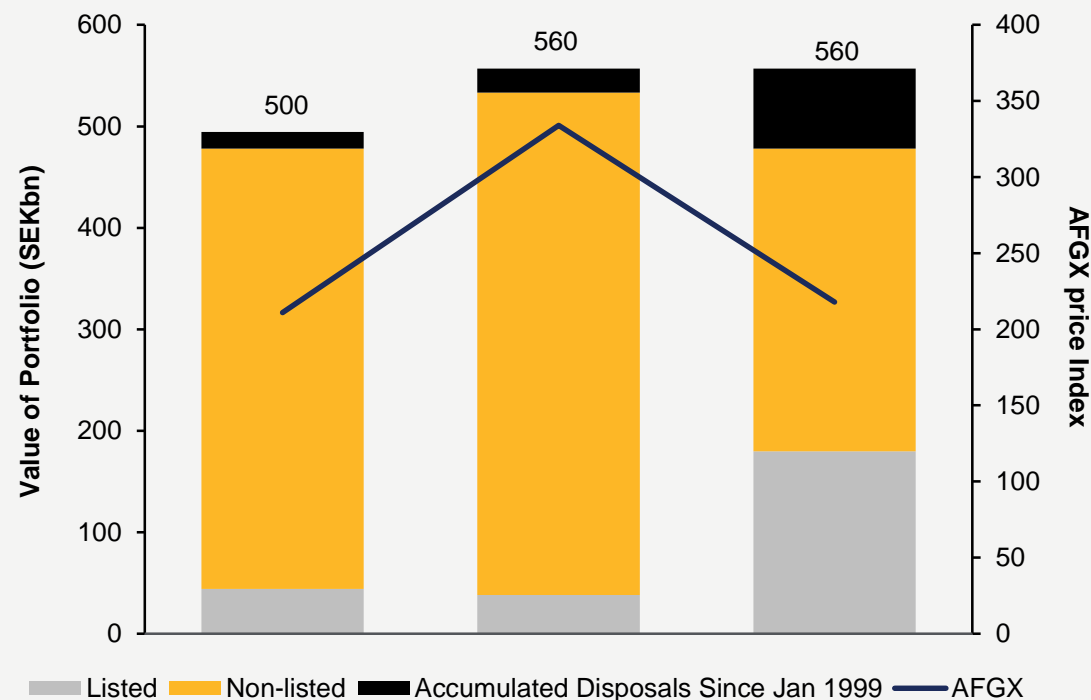
Largest privatization effort ever in Sweden

- Combined more than 30% of portfolio
- At SEK 150 bn, almost 4x any previous effort
- Despite not having privatization as an objective

Success with early deregulation

- led to significant fall in prices in these sectors from the late 1990s into the early 2000s

Outperformed the markets



Value increase of portfolio – twice stock market

Obstacles to unlocking value in public ownership



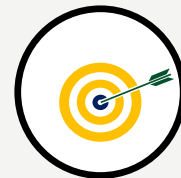
Absence of modern accounting

- Inability to manage fiscal risk
- Lack of accountability
- Inefficient capital allocation
- Higher cost of capital



Undue political interference

- Conflicting financial perspective with short-term budget vs. long-term investments needs
- Mixed objectives preventing aligned interests



Fragmented ownership

- Vested interests protecting status quo & preventing consolidated management



Poor governance leads to wasted resources, hidden obligations and ultimately corruption

Value of assets is hidden – without modern accounting

Escola Municipal Cicero Pena on the luxurious Copacabana in Rio de Janeiro



Public school on beachfront property



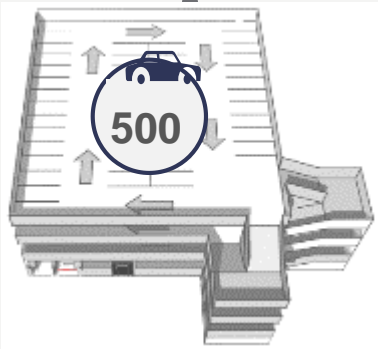
Relocation- increase city income and student outcomes

Cash vs. Accrual Accounting

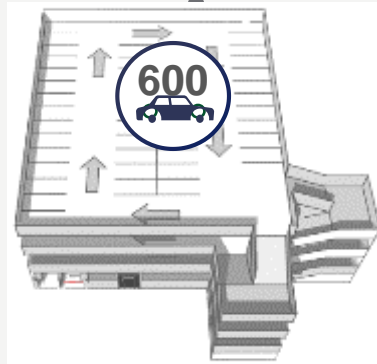
Cash perspective

Improve cash flow by increasing parking space and fees - alternatively sell entire asset

Baseline:
500 car



Optimization:
+100 cars



'Current use' - limiting the value of asset

Value perspective

Improve both cash flow and value, by developing the asset

Baseline:
500 car



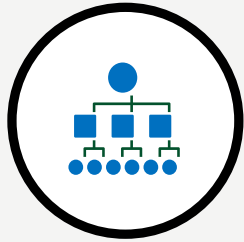
Maximising:
Apartments + garage



'Best use' - Maximise value and cash flow

Without modern accounting that acknowledge the value of assets governments risk privatising or enter into Public Private Partnerships (PPPs) just to avoid increasing debt

Holding Company - on equal footing with the private sector



Better governance

Transparency:

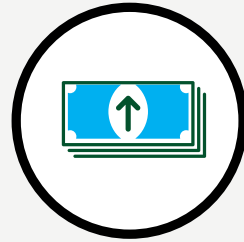
- Modern accounting, as-if listed company

Political insulation:

- Arms-length distance from short-term political influence

Clear objectives:

- Allowing for professional management of assets to maximize value



Financial impact

Portfolio maximization:

- Putting each asset to its most product use

Development tool:

- Proceeds from investments can be reinvested in the fund



Societal benefits

Funding tool:

- Dividend from fund can be can pay for other public expenditures, incl.;
- Health care
- Education
- Infrastructure
- etc.

Focus on core business – key for success

Conglomeration = obfuscation

- Higher risk and lower returns
- Impede capitalization
- Distracts management

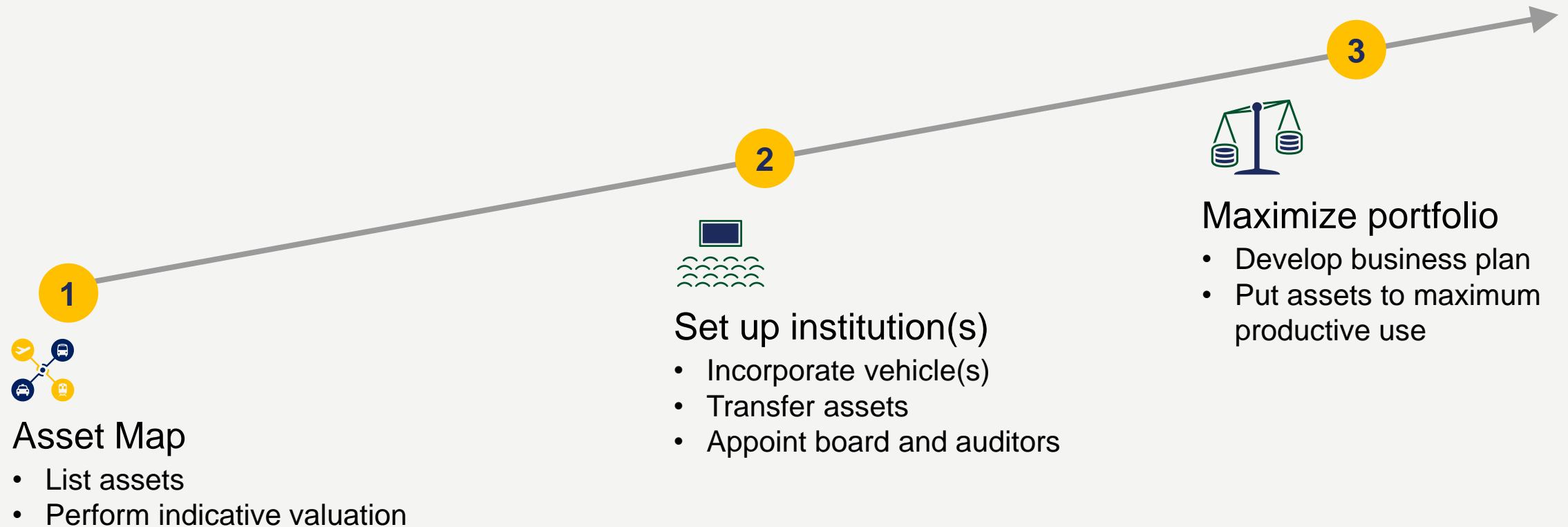
Three-ways to streamline

- Piecemeal individual divestitures
- One-off de-merger into internal vehicle
- Real estate into internal property company

Benefits of clear separation

- Specializing brings higher returns
- Minimizing risk
- Expedience on non-core assets management

3 simple steps – to unlock public wealth



Drive economic development and investments

An aerial, black and white photograph of a busy city street. The street is filled with many pedestrians, mostly seen from above as they cross a zebra crossing. The crossing is marked with white stripes. The overall scene is one of a dense, active urban environment.

Case Studies

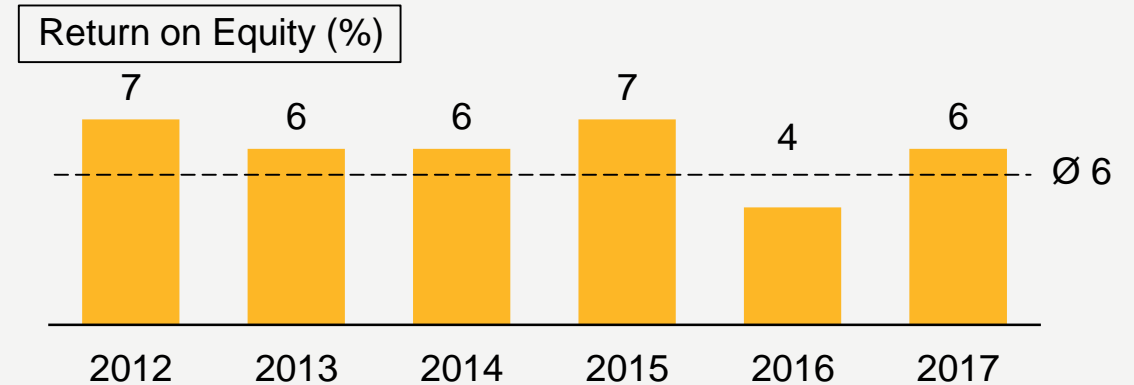
\$275Bn in holdings across industries

- Government owned investment fund, focused on sustainable value over time
- Global footprint, and portfolio covering all large industries
- Aimed at creating public value

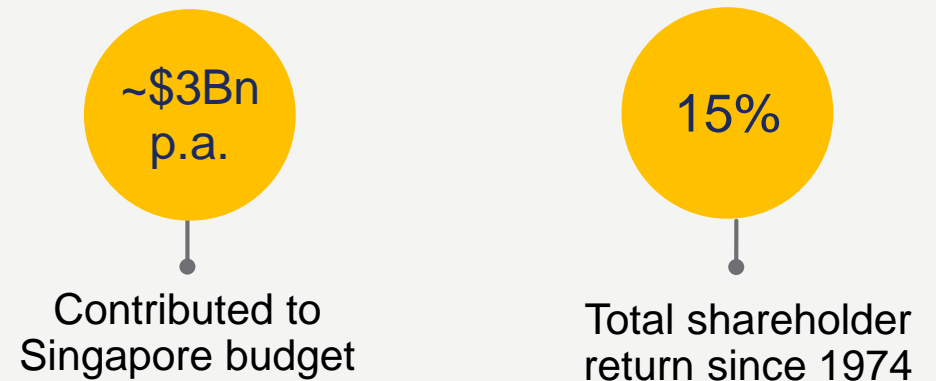
Professional governance

- Transparency: Singapore Audit Standards
- Political insulation:
 - Independent Non-executive from private sector
 - Meddling constitutionally forbidden
- Clear objectives: sustainable value maximization

15% return since inception



Providing funding for society

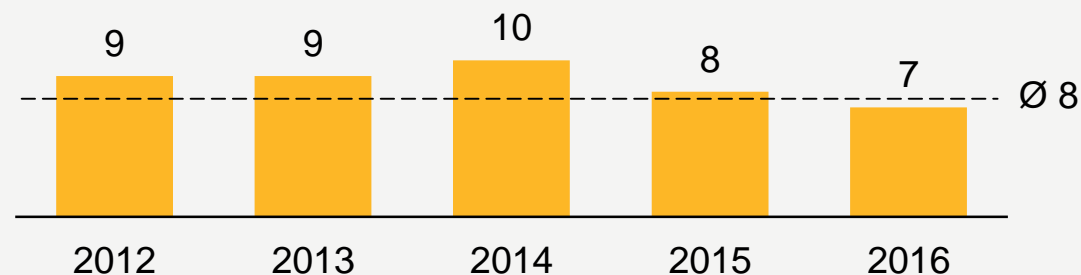


Business is centered around railway

- Builds, operates railway and develops adjacent property in 7 cities
- Listed company, 75% held by government
- The 'Rail + Property' model is widely admired

Steady returns and dividends

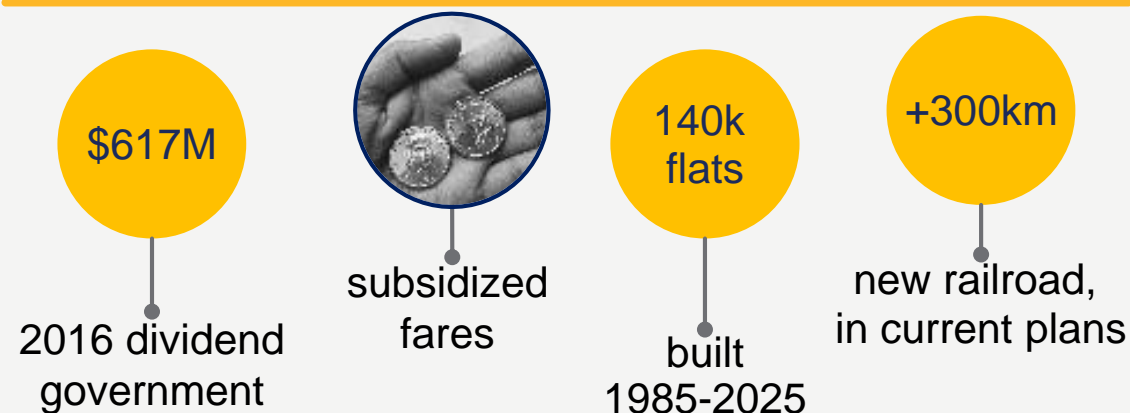
Return on Equity (%)



Sound governance & clear objectives

- Transparency: IFRS accounting & listed on Hong Kong's stock exchange
- Political insulation: Professionally elected non-executive board
- Clear objectives: Value maximization

MTR's success benefits citizens



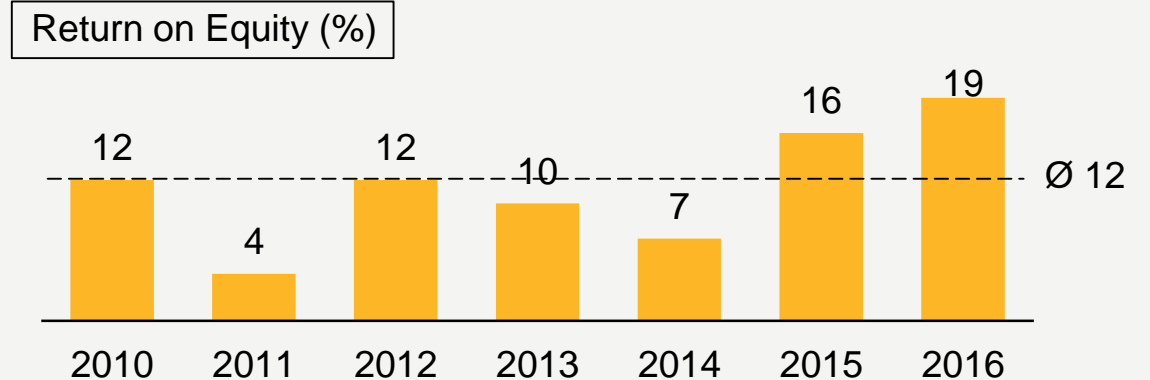
Swedish railway property owner

- Company wholly owned by the state
- Formed in 2001 through a separation from the railway operations
- \$2 billion real estate property portfolio incl. railway stations, land, freight terminals and office building

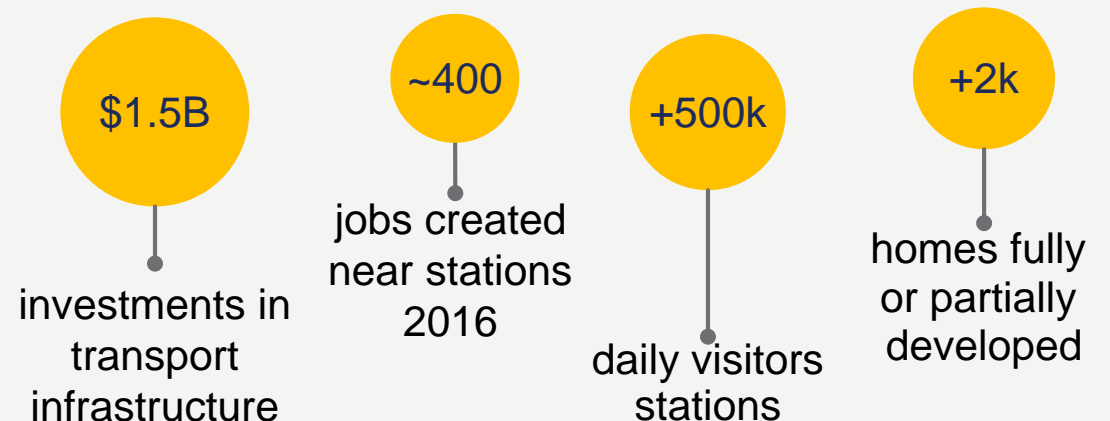
Adheres to governance principles

- Transparency: IFRS accounting
- Political insulation: Professionally elected non-executive board
- Clear objectives: Value maximization

Healthy returns



Projects with impact on economy



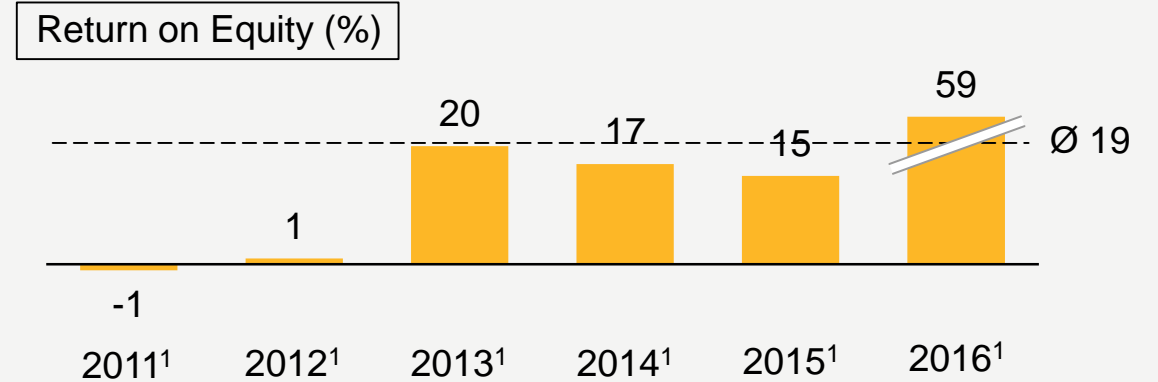
King's Cross redevelopment

- Manages and develops land for and adjacent to public railway systems
- Leverages private sector for best effect to develop high-speed rail, housing and office space on public land

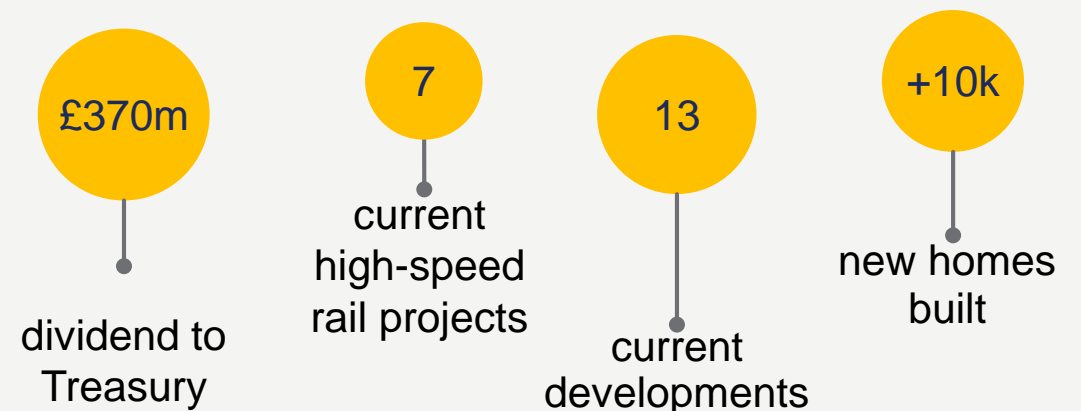
Adheres to governance principles

- Transparency: IFRS accounting
- Political insulation: Professionally elected non-executive board
- Clear objectives: Value maximization

Spiky returns



Projects with impact on economy



1. LCR fiscal year ends 31st March
Source: Company website, annual reports & financial data

Developed a city-in-a-city

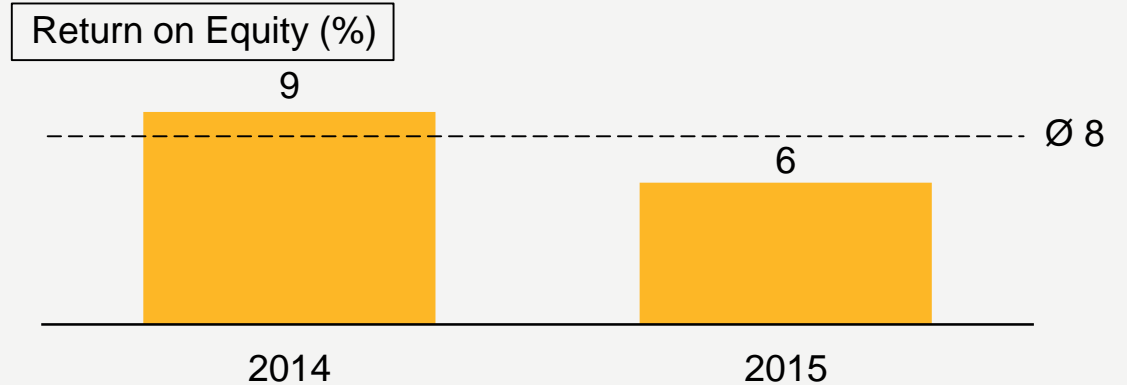
A new city-center

- Company owned by the City established in 1997
- Redeveloping harbor district into commercial and cultural hub
- Large investments in cultural, housing, commercial and educational facilities

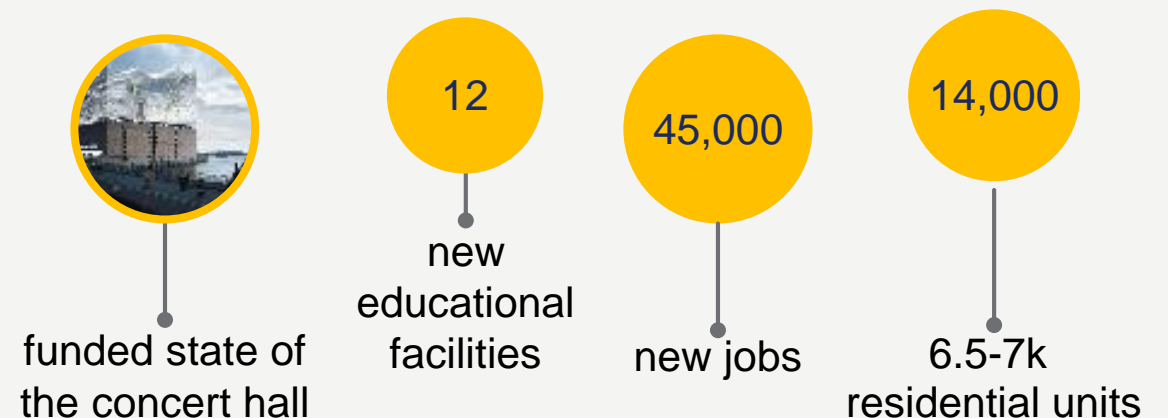
Unclear governance

- Transparency: No public financial reports
- Political insulation: No public information on board appointment procedure
- Clear objectives: Stated goal of value maximization

Healthy returns of 8% 2014-'15



Contributed to vibrant city-core



1. Showing only 2014-2015 as limited historical data available.
Source: The Public Wealth of Cities (2017), Company website, annual reports & financial data.

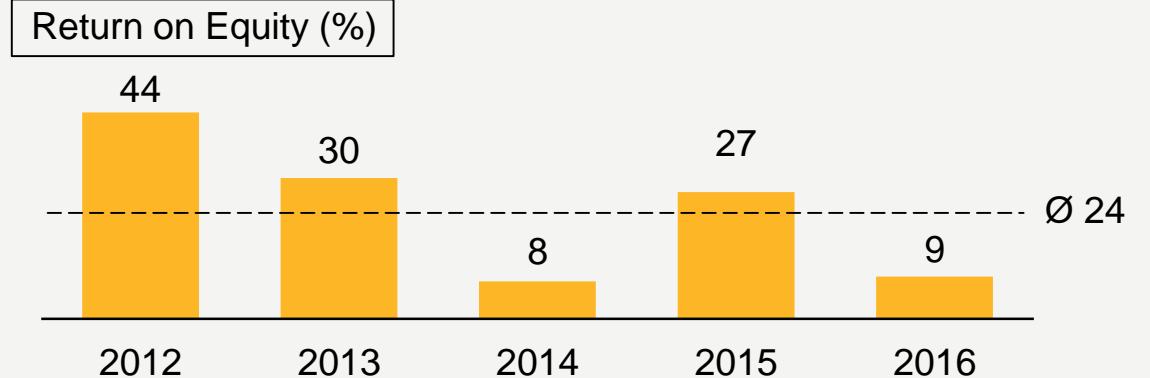
Objective to fund metro system

- Owned mainly by the city and 5% by the state.
- Largest UWF in Europe (1,290 acres) established in 2007
- Develops the waterfront and the landlocked Örestad district

Technically a national fund

- Transparency: assets booked at market value (non-IFRS)
- Political insulation: dependent on state government, with state guarantees
- Clear objectives: asset recycling-model, i.e. selling of land instead of developing the assets in-house

ROE averaging 24%



Payed for housing, universities etc.



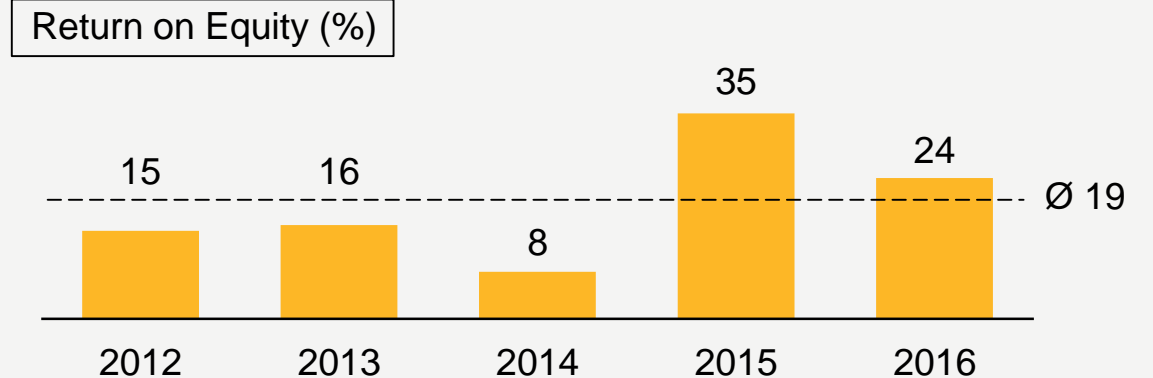
\$15B real estate portfolio

- Established after decommissioning of the Swedish State Property Agency
- Manages redevelopment and expansion projects
- 178 properties with a total area 2.4 mio m²

Professional governance

- Transparency: Follows IFRS accounting standards
- Political insulation: Professionally elected non-executive board
- Clear objectives: Stated goal of value maximization

Attractive returns on equity



Created new homes and offices

